UNITED NATIONS SYSTEM

Chief Executives Board
for Coordination

SYSTEME DES NATIONS UNIES

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pour la coordination

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Comment Letter on Exposure drafts 70, 71 and 72 from United Nations System Task Force on Accounting Standards

Dear Ross,

We very much welcome the opportunity to comment on the above mentioned exposure drafts and I am pleased to respond on behalf of the United Nations System Organizations' Task Force on Accounting Standards with specific comments attached in the spreadsheet. In the spreadsheet the first comments are those of the Task Force representing the member organizations, this is followed by comments of seven member organizations. Appendix A is a listing of our Task Force member organizations and Appendix B is the list of the seven member organizations which provided specific comments attached in the excel spreadsheet.

Overall, we agree with IPSASB's alignment with IFRS15 while modifying the principles to apply to the public sector context as well as the commitment to address issues of IPSAS23 with new standards. Furthermore, we appreciate the introduction of a standard for transfer expenses.

However, there are some areas of concern in the standards that we kindly request to be further developed or clarified with additional examples and guidance. Our detailed comments per specific matter requested for comment is provided attached spreadsheet.

- The suite of standards is complex with concepts which may be difficult to understand by users of the financial statements. It may be challenging for preparers and auditors to consistently apply the proposed requirements compounding the problem yet the resulting accounting, apart from disclosures, is quite straightforward.
- We are concerned that a number of arrangements will be split across the two standards creating additional confusion for the users of the statements as well as creating additional costs exceeding the benefits.

- UN entities, in general, are not acting as purchasers of goods and services alone but do so in wider policy and programmatic context. Especially in the development agencies, characterizing funding flows as transactional purchases by the donor may not be appropriate or accurate even when performance obligations exist.

We further request consideration for the standards to explicitly allow grouping similar arrangements together as a policy option to be accounted for through eligible expenditures incurred rather than through application price to individual deliverables. This would reduce the burden of implementation for a number of entities given large volumes of deliverables involved in our operations.

On behalf of the UN System and our Revenue Working Group, I sincerely thank you and your team for your engagement and openness in discussion. We found the meetings and workshops very beneficial and appreciated by all participants. We look forward to continuing our engagement as the standards evolve.

Kind regards,

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	Matter for Comment	UN System TFAS response	FAO	IAEA	IOM	UN
Specific Matter for Comment 1:	This Exposure Draft is based on IFRS 15, Revenue from Contracts with Customers. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement. Do you agree that the scope of this Exposure Draft is clear? If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?	We agree with the inclusion of binding arrangements in the scope but request explicit further clarificaiton or guidance is incorporated on enforceability in the context of sovereign states not just within the state but in binding arrangements between states and states and international organisations.	AGREE	Although conceptual framework discussions concluded that arrangements with sovereign states were enforceable, enforecability should be defined in greater detail or the requirement should provide more flexibility if this is intended, such as reasonably enforceable, or enforceable in substance (for example, if an agreement, in substance, would be enforceable if it were between two equal parties transacting at an arms-length). Enforcement mechanisms outside the legal system are not always present for sovereign member states, as is required for an arrangement to be enforceable through 'equivalent means'. AG24 refers to considering past experience with respect to the purchaser's enforceability, but not the entity's enforceability in reverse.	IOM agree the scope is clear. However, enforceability is still contained in the definition and AG13-AG24 still does not contain guidance relevant to UN system organizations. It would be helpful if AG-24 provides further guidance relevant to history - if an UN agency always complies than 'binding' means 'enforceable'.	We agree with IPSASB that scope of exposure draft would be based on the binding arrangements. IPSASB may include some guidance on identification of binding arrangements for cases where binding arrangements are entered online or following digital routes between two parties, especially baring in mind the most recent unprecedented circumstances during the COVID-19 global pandemic, when due to government-enforced lockdowns and social distancing regulations, many of donor offices and UN entities have been working online since March 2020. Contractual consequences of the resulting changes will be significant and entities may have to adopt new practices of entering binding arrangements. There could be cases when the terms/conditions are agreed upon during virtual meetings and donor would transfer the funding without formalizing the agreement on paper (timing issue for determination of a binding agreement at year end). In some jurisdictions digital signatures are not acceptable, and in cases when the UN signs an agreement digitally binding arrangement might not confer enforceable rights and obligations on both parties to the arrangement. ESCAP: Although the definition of "binding arrangement" in para 8 (a) includes informal forms of agreements like orals and the customary practice (exchange of letters/emails in UN) in addition to written contracts meaning "substance over form is applicable" for definition of binding arrangements, the wording in para 11 seems to be make the informal means of agreements (such as oral, e-mail communication, etc.) difficult to be considered as "binding" because those informal means do not give recourse to the any of the party for non-performance, so the terminating can happen easily without compensating the other party (or parties). It could be considered to add check box "Are there performance obligations" in case of answer "No" to check box "Is there a binding arrangement"
Specific Matter for Comment 2:	This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations, and [draft] IPSAS [X] (ED 72), Transfer Expenses, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define "transfer revenue" or "transfer revenue with performance obligations" to clarify the mirroring relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22. Do you agree with the IPSASB's decision not to define "transfer revenue" or "transfer revenue with performance obligations"? If not, why not?	We agree with the decision as noted	AGREE	Definitions would support the stand-alone standard and should be included.	IOM agrees with the decision and that the reasons are presented in BC20 – BC22.	UNHQ, UNOV, UNODC agree: This clarifies the interaction between three Exposure drafts and relationship between key terms of "revenue with performance obligations for transfer provider's own use", "revenue with performance obligation for third party beneficiaries" under ED 70, "revenue without performance obligations" under ED 71 and "transfer expenses" under ED 72.
Specific Matter for Comment 3:	Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70. Do you agree with the application guidance? If not, why not?	We generally agree with the application guidance in paragraphs AG69 and AG70 as it pertains to price allocation. However, where the components cannot be separated, the rationale of why the entire transaction is accounted for in accordance with ED70 (rather than ED 71) is not clear and further guidance/examples would be welcome.	AGREE	The requirement "To demonstrate that this presumption is rebutted, the terms of the binding arrangement must clearly specify that only a portion of the consideration is to be returned to the purchaser in the event the entity does not deliver the promised goods or services, as this indicates that the remaining consideration is intended to help the entity achieve its objectives." does not appear to address a combination of performance and present obligations. We would suggest other specific guidance in addition, reflecting cases where refund terms apply to both ED70 and ED71 revenue.	IOM agrees with the application guidance, as relates to agreements that provide both a "condition" on part of the performance and a "restriction" on the balance - part recognized immediately as revenue and part offset by a liability. Such arrangements would be unusual/limited at IOM. Potential additional guidance could be considered where such arrangements, containing both components, but where no market price accessible to assist in how/guide to establish the transaction price for the service component.	UNHQ: As the primary objective of UN Entities is to deliver services as per donor directives, the aim of public sector financial statements is different from those of commercial and business entities. The objective of the financial statements is to provide the information in a meaning and informative way. The guidance mentioned in para AG 69 and para AG70 is excellent where accountants are uncertain on how to deal with such type of agreements. But it also brings with it a challenge on how to segregate the transaction of the agreement into two types, especially in cases where value of goods and services with performance obligation is very minimal as compared to remaining consideration of whole contract relating to transfer of promised goods and services for helping the entity to achieve its own objectives. We recommend introduction of the materiality factor for implementing the guidance mentioned in para AG70.
Specific Matter for Comment 4:	The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards. Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?	Generally we are in agreement with the alignment of the disclosure but where split arrangements exists, the combination of dislcosure requirements under EE 70 and 71 may become burdensome.	AGREE	No preference as it is likely to be immaterial for the IAEA and therefore we have a neutral position regarding this specific matter.	In IOM view, this would involve extra work to expand disclosure notes on Accounts Receivables and the Revenue, as requiring to split voluntary contributions into ED70 and 71 arrangements. Albeit the additional information, at this time not convinced that this will be useful to the readers of the Financial Statements, as the reader might not understand the distinction between the two types of voluntary contributions as then classed by arrangements.	ESCAP: The disclosure requirements are quite overwhelming (Para 108-130). And for this ED 70, the applicability will not only limit to the procurement type binding agreements from voluntary contribution funding, but also the service delivery/cost recovery revenue which is also revenue with performance obligations, UN's consideration should be on the practicality of such disclosures in the context of UN revenue transactions with performance obligation.
Specific Matter for Comment 5:	In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47. Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?	We agree with the disclosure requirements	na	No preference as the IAEA does not knowingly engage with donors where non-payment is expected and therefore we have a neutral position regarding this specific matter.	This not really relevant to IOM, but no objection foreseen for such a disclosure.	
Other matter for comments [please indicate the specific paragraph or group of paragraphs in the ED]						

	UNDP	UNEP	UNESCO	UNFCCC	UNFPA	UN-HABITAT	UNHCR	UNICEF	WIPO
Specific Matter for Comment 1:	We generally agree with the scope. The explicit inclusion in the scope for the delivery of goods and services to third-party beneficiaries clarifies the matter for these types of transactions which are prevalent for UNDP and throughout the broader UN system. On the issue of enforceability of the arrangement, there are peculiarities in the UN environment that are not addressed in the ED (i.e. where arrangement may not be enforceable by legal or equivalent means). This could scope out a significant number of arrangements.							UNICEF agrees with extending to binding arrangements but agrees with IAEA that clarification of the reverse enforcability should be incorporated and IOM comment on clarification of whether compliance in the past with binding agreements means enforceability	Additional application guidance should be provided concerning the definition of enforceability in the context of a sovereign power resource provider (reflecting the position taken in Conceptual Framework paragraph 5.22).
Specific Matter for Comment 2:	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We generally agree with the IPSASB's decision not to define 'transfer revenue' or 'transfer revenue with performance obligations', particularly on the basis of BC22(b).	We agree with the decision not to define "transfer revenue" or "transfer revenue with performance obligations", specifically the conclusion in BC 21(b) that this would add an unneeded level of complexity.
Specific Matter for Comment 3:	We generally agree with the application guidance in paragraphs AG69 and AG70 as it pertains to price allocation. However, where the components cannot be separated, the rationale of why the entire transaction is accounted for in accordance with ED70 (rather than ED 71) is not clear and is not aligned with the existing guidance under IPSAS 23 where such transactions are accounted for, in their entirety, as non-exchange transactions.							We agree with the wording on AG69. AG70 is challenging in that for many organisations like UNICEF the distinction between helping the entity achieve its objectives and provision and good and services is very unclear. The organisations objectives are to achieve certian objectives and those objectives are met through provision of goods and services to third parties. This can lead to very complex accounting processes and disclosure requirements to achieve essentially the same accounting. There is complexity and inter-connectivity with the two standards that can cause application issues especially when arrangements fall into scope of both standards. Where large number of arrangements are entered into each year with some split applications, it can lead to the financial statements being less	We agree with the logic of the explanation provided in the application guidance concerning the possibility that a single transaction price could be disaggregated and accounted for under two different standards. However, this possibility, along with other areas of potential overlap between the standards, raises the question as to whether a single revenue standard would have been preferable.
Specific Matter for Comment 4:	We generally agree that the disclosure requirements in ED 70 should be aligned with those in IFRS 15 and support the provisions of para.110 through 112 enabling preparers to determine the level of detail necessary.							If the scope of was narrowed as proposed in SMC3 above, then we are in agreement with the disclosure requirements. Due to the split arrangements, the disclosures may be difficult for the users of the statement to understand.	We agree with alignment with IFRS 15.
Specific Matter for Comment 5:	Compelled transactions are not applicable to UNDP and therefore we are not responding to this SMC.							Compelled transactions are not applicable to UNICEF and hence we provide no comment on this matter	We agree with the decision to add the disclsoure requirement in paragraph 120.
Other matter for comments [please indicate the specific paragraph or group of paragraphs in the ED]								The issue with IPSAS 23 was lack of clarity and complexity of requirements. The new set of standards are adding further complexity likely resulting in artifical splitting of arrangements and applicability of different standards to different donors due to differing legal agreement wordings even when they are for same purpose and nature of the use of the funds received is the same. Many, if not most, of our donors are not entities applying IPSAS and hence we see very little opportunity for change in legal agreements to achieve consistent accounting.	