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John Stanford
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International Public Sector Accounting
Standards Board
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

Submitted electronically through the IPSASB website

Subject: ED-70, Proposed International Public Sector Accounting Standards - Revenue with Performance Obligations

Dear Mr.Stanford,

Thank you for the opportunity to provide the IPSASB with our comments on the draft proposed International Public Sector Accounting Standard - Revenue with Performance Obligations (referred to hereinafter as “ED 70”).

UNOPS broadly agrees with the approach outlined in ED 70 as being appropriate for the not-for-profit public sector. However, UNOPS does not agree with the disclosure requirements for contract liabilities stemming from IFRS 15, and instead proposes an alternative set forth in our response.

The attachment to this letter sets out UNOPS’ response to the specific matters for comment. If you have any queries or require clarification of any matters in this letter, please contact Jawid Azizi (jawida@unops.org).

Yours sincerely,

Jawid Azizi
Head of Financial Statements and UN Board of Auditors Recommendations, United Nations Office for Project Services

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?

UNOPS agrees that the scope of this Exposure Draft is clear. UNOPS supports the decision to base the Exposure Draft around binding arrangements rather than legal contracts, and agree that the definition of binding arrangements in ED 70 is appropriate. Certain public sector entities in some jurisdictions may not have the power to enter into legal contracts, therefore the definition of binding arrangements with ED 70 provides guidance for such entities.

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 4 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?

UNOPS is in agreement that ED 70 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. UNOPS further agrees with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”, due to the reasons set out in paragraph BC21 b).

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?

UNOPS agrees that if the transaction price is wholly related to the transfer of goods or services, the terms of the binding arrangement should specify the portion of the consideration to be returned to the purchaser in the event that the entity does not deliver the promised goods or services. The returned amount indicates that a portion of the consideration relates to helping the entity achieve its objectives. Therefore, a purchaser entering into a binding arrangement with an entity with a dual purpose of obtaining goods or services and to help the entity achieve its objectives should disaggregate the transaction price and account for the component that relates to the transfer of goods or services in accordance with ED 70, and the remainder of the transaction price shall be accounted for in accordance with [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations. UNOPS acknowledges that many public sector binding arrangements are not currently at this level of granularity to easily identify what proportion of the transaction price relates to the transfer of goods and services, as opposed to helping the entity achieve its objectives. As such a significant amount of work will be required to review any ongoing binding arrangements to ensure that transaction prices can be appropriately allocated.

<u>Specific Matter for Comment 4:</u>
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?

UNOPS agrees that ED 70 disclosure requirements should be aligned with those in IFRS 15, however UNOPS disagrees that no disclosure requirements should be removed. UNOPS' conclusions were reached with IPSAS 1 in mind. As it states that the qualitative characteristics of information being presented should provide comparability, understandability, relevance, and reliability. Consequently, disclosing information should be relevant to the users of the financial statements and conducive to assist in evaluating past, present and / or future events.

Please note below the disclosure requirements for which we recommend removal.

<u>Item #1 to amend - Paragraph 116 B), and C)</u>

> *116 An entity shall disclose all of the following:*
> *(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and*
> *(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).*

<u>Item #2 to amend - Paragraph 118 B)</u>

> *118 An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The*

explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following:
(b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification;

The nature of UNOPS' binding arrangements are constantly changing resulting in amendments over the life of the binding arrangement. It is rare for the binding arrangement to stay as is due to numerous external factors that affect the nature of the performance obligations to be carried out. As such, UNOPS binding arrangements go through multiple modifications throughout the life of the binding arrangement (scope change, timing and duration change, etc). Due to this, disclosing explicitly the effects of changes of transaction prices does not add value to the users of the financial statements as these changes are the norm rather than an exception.

As a suggested alternative for items #1 (paragraph 116 B and C)) and #2 (paragraph 118 B)), would be a reconciliation between opening and closing balances for contract liability, along with any relevant qualitative information.

a) Opening balance for contract liabilities
b) Increase in contract liabilities
c) Contract liabilities recognized as revenue in the period
d) Ending balance of contract liabilities

<u>Item #3 to remove - Paragraph 122 and 123</u>

122. As a practical expedient, an entity need not disclose the information in paragraph 121 for a performance obligation if either of the following conditions is met:
(a) The performance obligation is part of a binding arrangement that has an original expected duration of one year or less; or EXPOSURE DRAFT 70, REVENUE WITH PERFORMANCE OBLIGATIONS 33
(b) The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph AG57.

123. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 122 and whether any consideration from binding arrangements with purchasers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 121. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 55–57).

UNOPS suggests the removal of Paragraph 122 and 123 altogether from the disclosure requirements as this would provide an option to not disclose the requirements as set out in paragraph 121. Whilst paragraph 122 and 123 allows entities the option not to disclose information for binding arrangements with an original expected duration of 12 months of less, or binding arrangements that recognise revenue in accordance with AG57, UNOPS does not believe the omission of such information is beneficial to the users of the financial statements in the public sector due to the need for transparency and comparability of financial statement information (for example, between entities of similar nature). Thus UNOPS believes that paragraph 121 should be required for all performance obligations regardless of duration or revenue recognition method.

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?

UNOPS agrees 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. Arrangements an entity is compelled to enter whereby the collectability of the consideration is in question, collection is not probable, price concessions, etc could be prevalent and material in certain jurisdictions. Therefore, could be of value to financial statement users and thus, critical that this is adequately disclosed.

Other Matters

Resource requirements

ED 70 is the new accounting standards for revenue with performance obligations, and is a key standard for UNOPS and many other entities in the public sector. Implementation of this standard will have broad business implications, and financial impact on revenue, KPIs, etc. Before even transitioning to ED 70, entities will have to perform their own due diligence and investigate if and what the impact of it will have on the entity, which may require an overhaul of the core systems used to produce the financial data. UNOPS recognises that considerable efforts and resources will be required for entities transitioning to ED 70 to determine the appropriate accounting treatments, restate historical data, change IT system set up, processes and internal controls. It will also be crucial for entities to change and or update their current binding arrangements to avoid negative accounting consequences. Overall, due consideration is needed by the IPSASB with regards to implementation time for ED70 - Revenue with

Performance Obligations, ED 71 - Revenue without Performance obligations, and ED 72 - Transfer Expenses, as a result of potentially significant changes required within the entities for effective implementation.