



International Public Sector Accounting Standards Board  
277 Wellington Street West Toronto  
Ontario M5V 3H2  
CANADA

27 October 2020

Dear IPSASB:

### **UNDP Comment letter on Revenue (ED70 – 71)**

Thank you for providing the United Nations Development Programme (UNDP) the opportunity to comment on the IPSASB's proposals. This letter sets out UNDP's comments on the following exposure drafts (EDs):

- ED 70 *Revenue with Performance Obligations*
- ED 71 *Revenue without Performance Obligations*

We have provided our responses to the specific matters for comment (SMCs) as appendices to this letter together with UNDP's additional comments for the IPSASB's consideration.

### **UNDP overall comments**

The EDs appear to be quite challenging to implement and are rather complex, raising concerns on the costs of compliance versus the benefits derived. Despite this, we welcome further alignment with IFRS (i.e. IFRS 15 for ED 70) and will leverage from existing implementations in addressing complex matters. As financial statement preparers, UNDP has concerns about the ability to consistently apply the proposed requirements as outlined in ED 71 to our revenue arrangements.

UNDP finds ED 71 particularly difficult to implement, mainly as it pertains to the distinction between performance obligations and present obligations. In our context, it will be challenging to determine which standard we will need to apply for many revenue funding agreements with donors (i.e. ED 70 or ED 71).

The proposals in ED 71 require new and subjective judgements as compared to the those required in the application of IPSAS 23 *Revenue from Non-Exchange Transactions*. ED 71 introduces a fundamental change from one set of principles under the existing IPSAS 23 requirements (i.e. restrictions vs. conditions) to a new set of principles under the ED 71 requirements.

We agree with the proposed disclosures in ED 70 but do not agree with the disclosure requirements in ED 71 and consider that they may be excessive.

We are of the view that ED 71 would benefit from further efforts to ensure that the requirements are expressed as clearly as possible, to aid understanding and to lead to a consistent application amongst the entities in the UN System. The principles in ED 70 are derived from those in IFRS 15 Revenue from Contracts with Customers. However, the principles in ED 71 are new and, in our view, there is insufficient guidance to lead to a consistent application of the requirements. As preparers of financial statements, we envisage significant implementation issues, especially as it pertains to determining under which standard our revenue arrangements are scoped into. Further comments are included in the appendices that follow.

If you have any questions or require clarification of any matter in this letter, please contact myself ([adam.phillion@undp.org](mailto:adam.phillion@undp.org)) or M. Fahim Aziz Omar ([mohammed.fahim.aziz.omar@undp.org](mailto:mohammed.fahim.aziz.omar@undp.org)).

Yours sincerely,

*Adam Phillion*

Adam Phillion  
Chief, Corporate Financial Reporting and Agency Services  
United Nations Development Programme

## **APPENDIX 1: Response to SMCs on ED 70 Revenue with Performance Obligations**

### **ED 70 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?

#### **UNDP Response**

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 arrangements may not be enforceable by legal or equivalent means). This could result in scoping out a significant number of arrangements.

### **ED 70 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?

#### **UNDP Response**

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).

### **ED 70 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?

#### **UNDP Response**

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.

#### **ED 70 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?

#### **UNDP Response**

We generally agree that the disclosure requirements in ED 70 should be aligned with those in IFRS 15 and support the provisions of paragraph 110 through 112 which enables financial statement preparers to determine the level of detail necessary.

#### **ED 70 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?

#### **UNDP Response**

Compelled transactions are not applicable to UNDP and therefore we are not responding to this SMC.

## APPENDIX 2 Response to SMCs on ED 71 *Revenue without Performance Obligations*

### ED 71 Specific Matter for Comment 1 (Paragraphs 14–21)

The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, *Revenue without Performance Obligations*, a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?

### UNDP Response

We do not agree with the IPSASB's proposals as outlined in SMC 1.

UNDP receives funds in advance of the implementation period for which it expects to incur related expenses and one of the significant implementation issues under the existing standard (IPSAS 23) was on the timing of revenue recognition. However, ED71 does not resolve the issue and appears to be compounding it with the introduction of new concepts. We do not agree with the IPSASB's position on why, in the absence of a performance obligation, an entity may have a liability (i.e. present obligation) in relation to obligations to carry out specified activities or incur eligible expenditure. We are also concerned about the implications of the proposals in ED 71 for when liabilities should be recognized. We note that specified activities and eligible expenditure as defined in ED71 could be conditions or restrictions under IPSAS 23. However, based on the concepts outlined ED71, we are of the view that ED71 will give rise to an increase in the number of liabilities in our financial statements.

The proposals in ED 71 introduce new concepts which require subjective judgements when compared to the those required in applying IPSAS 23 Revenue from Non-Exchange Transactions. Similar judgments previously led to an inconsistent application of IPSAS 23 in the UN system and inevitably lead to different outcomes for transactions and events that were similar or substantively the same in nature. Under the IPSAS 23 standard, UNDP experienced challenges in distinguishing between exchange and non-exchange transactions, including distinguishing between conditions and restrictions. Such challenges in the application of IPSAS 23 will be replaced with similar issues in distinguishing between binding arrangements with performance obligations, binding arrangements without performance obligations but with present obligations, and arrangements that are not binding which we believe will make it difficult for readers of financial statements to understand. Additional application guidance on whether an arrangement includes present obligations be welcomed.

We also anticipate implementation issues in differentiating between enforceable eligible expenditure and specified activities that lead to present obligations and those that do not in addition to challenges in assessing situations for which revenue can or cannot be deferred under ED 71. This is partly because of a lack of clarity on what qualifies as a 'specified activity' or 'eligible expenditure'. For example, in *ED 71 At-A-Glance document* which refers to the purchase of hospital beds as an example of a specified activity, we are of the view that such purchases may be equally used as an example of incurring eligible expenditure (i.e. the funding must be spent on the hospital beds). We do not think that ED 71 establishes a sufficiently clear demarcation between what qualifies as eligible expenditure and what would not. Further, as the distinction between specified activities and eligible expenditure does not affect the proposed accounting, we question the relevance of the need to make the distinction. A proposal might be to require an enforceable obligation to spend the resources in the manner specified by the transfer provider, with that obligation being sufficiently specific to demonstrate that enforceability exists. The focus on sufficient specificity would help a transfer recipient demonstrate that it has satisfied the obligations. Obligations that relate solely to spending funds in a particular period (e.g. time requirements) and other such arrangements would not be

enforceable. The focus of the requirements and associated guidance could then be on whether a binding arrangement has the critical characteristics required to defer revenue in line with enforceable obligations.

#### **ED 71 Specific Matter for Comment 2 (Paragraph 31)**

The flowchart that follows paragraph 31 of this [draft] Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition. Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?

#### **UNDP Response**

If the proposed standard is revised further to concerns raised above, the flowchart would need to be revised accordingly.

#### **ED 71 Specific Matter for Comment 3 (Paragraphs 57–58)**

The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.

Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?

#### **UNDP Response**

Based on our response to SMC 1, we disagree with SMC 3. There should be further practical guidance to determine when and whether a present obligation is satisfied at a point in time or over time. It is unclear whether preparers can borrow guidance already included in ED70. If so, this should be clarified in ED71.

#### **ED 71 Specific Matter for Comment 4 (Paragraphs 80–81)**

The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?

#### **UNDP Response**

We do not agree that the guidance is sufficient. Our agreements may contain multiple deliverables and it may be challenging to assign a price to each of these. This may result in the use of different methods to allocate transaction prices and could create inconsistencies in accounting treatment and may diminish comparability of the financial statements within the broader UN system.

#### **ED 71 Specific Matter for Comment 5 (Paragraphs 84–85)**

Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, how do you propose receivables be accounted for?

### **UNDP Response**

UNDP agrees that receivables within the scope of this ED should be subsequently measured in accordance with IPSAS 41.

### **ED 71 Specific Matter for Comment 6 (Paragraphs 126–154)**

The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?

### **UNDP Response**

UNDP is of the view that the disclosure requirements may be excessive. The IPSASB should reconsider the extent of the disclosure requirements. While disclosures provide information that is relevant for users of the financial statements, too many disclosures may confuse users and dilute the value of any important disclosures.

We note that the disclosure requirements in ED 71 relating to binding arrangements with present obligations have been aligned with the disclosure requirements in ED 70, amended as necessary for consistency with the terminology used in ED 71. We are of the view that aligning the disclosures in ED 70 for ED 71 results in disclosure requirements for ED 71 for binding arrangements with present obligations being more detailed than is necessary. It may be useful to assess whether consideration was given to the disclosure requirements in ED 71 considering the scope of the standard and user information needs.

Further, as currently organized, it is difficult to identify which disclosures relate to revenue with present obligations as some of the disclosures are general (with more detailed disclosures following) and some appear to be duplicated (for example, paragraphs 131(b) and 143(a) both require an entity to disclose the amount of receivables recognized at the reporting date). This results in disclosures for revenue with present obligations occurring in several paragraphs. Structuring the disclosure requirements with appropriate headings and aligning them with the structure of the recognition and measurement requirements in the ED would help to address this matter.

Finally, it may also be a good opportunity to revisit all disclosures carried over from IPSAS 23 and consider whether they are still relevant.

### **ED 71 Specific Matter for Comment 7 (Paragraphs N/A)**

Although much of the material in this [draft] Standard has been taken from IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers), the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), Transfer Expenses.

Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?

### **UNDP Response**

It appears that the recognition and measurement requirements were taken from IPSAS 23 and that the disclosure and presentation requirements were taken from IFRS 15. We find that there is insufficient guidance

on how the principles should be applied in practice, which could be the reason for many areas that would require preparers to make significant judgements. In our view, the ED should aim to reduce, to the extent possible, any unnecessary subjectivity resulting from exercising judgements, especially in light of the implementation issues with IPSAS 23 noted above.

**END**