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IPSAS®

*International Public Sector Accounting Standard®*

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IPSAS 48, *Transfer Expenses*

IPSASB

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# [DRAFT] IPSAS [X], TRANSFER EXPENSES

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## Objective

1. **The objective of this [draft] Standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of cash flows arising from transfer expenses.**
2. To meet the objective in paragraph 1, this [draft] Standard:
  - (a) Requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and
  - (b) Sets out the accounting requirements for the transfer expense transaction.

## Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for transfer expenses as defined in this [draft] Standard, including transfer expenses incurred for capital transfers.**
4. **This [draft] Standard does not apply to:**
  - (a) **Leases as defined in IPSAS 43, *Leases*;**
  - (b) **Contributions from, and distributions to, owners;**
  - (c) **Service concession arrangements as defined in IPSAS 32, *Service Concession Arrangements: Grantor*;**
  - (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**
  - (e) **Financial instruments, including concessionary loans, as defined in IPSAS 41, *Financial Instruments*;**
  - (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**
  - (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts);**
  - (h) **Share-based payments (see the international or national accounting standard dealing with share-based payments); and**
  - (i) **Income taxes (see the international or national accounting standard dealing with income taxes).**
5. A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards:
  - (a) If the other Standards specify how to separately recognize and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18-43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

- (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this [draft] Standard to the entirety of the binding arrangement.

Paragraphs AG2-AG3 provide additional guidance on the scope of this Standard.

## Definitions

6. The following terms are used in this [draft] Standard with the meanings specified:

From the perspective of a transfer provider, a **capital transfer** is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG53 provides additional guidance.)

The **stand-alone consideration** is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.

For the purposes of this [draft] Standard, the **transfer consideration** is the amount of total resources<sup>1</sup> which an entity expects to transfer.

A **transfer expense** is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 18-29 provide additional guidance).

A **transfer obligation** is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

A **transfer obligation liability** is the liability recognized for the existence of one or more transfer obligations arising from a binding arrangement.

A **transfer provider** is an entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.

A **transfer recipient** is an entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity.

A **transfer right** is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A **transfer right asset** is the asset recognized for the existence of one or more transfer rights arising from a binding arrangement.

7. The following terms are defined in [draft] IPSAS [X], *Revenue*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS [X]:
- (a) Binding arrangement;
  - (b) Compliance obligation;
  - (c) Contract;

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<sup>1</sup> In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

- (d) Taxes; and
- (e) Third-party beneficiary.

A constructive obligation is defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Expenses are defined in IPSAS 1, *Presentation of Financial Statements*.

Paragraphs AG5-AG9 provide additional guidance on the definitions in this Standard.

Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

## Identifying the Transfer Expense Transaction

**8.** An entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is generally derecognized when (or as) the entity's rights from the transfer arrangement are extinguished.<sup>2</sup> For transfers which do not result in the recognition of an asset, a transfer expense is generally recognized: as a transfer expense

**(a)** When the entity loses control of the transferred resources; or, Alternatively,

**(b)** When the entity has incurred an obligation to transfer resources and, it, recognizes a liability and for the obligation transfer expense.

The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement provides inputs into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.

**8.9.** An entity will apply the guidance on recognition and measurement in this [draft] Standard as follows:

- (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18-20; and
- (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21-43.

Paragraph AG10 provides additional guidance on identifying the transfer expense transaction.

## Binding Arrangements and Enforceability

**9.10.** For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.

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<sup>2</sup> The asset may be derecognized at a point in time or over a period of time depending on the terms of the arrangement.

~~40.11.~~ In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the satisfaction of the other parties' stated obligations.

~~41.12.~~ A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable.

~~42.13.~~ Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors, and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

~~43.14.~~ A binding arrangement has at least one present obligation because its enforceability holds the entity accountable for satisfying the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the transfer of resources.

~~44.15.~~ When the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to satisfy their obligations under the arrangement.

~~45.16.~~ A binding arrangement is wholly unsatisfied if both of the following criteria are met:

- (a) The entity has not yet paid, and is not yet obligated to pay, consideration to the transfer recipient for the transfer recipient satisfying any of its stated compliance obligations in the binding arrangement; and
- (b) The transfer recipient has not started satisfying any of its stated compliance obligations in the binding arrangement.

Paragraphs AG11-AG29 provide additional guidance on [enforceability and](#) binding arrangements.

## **Combination of Binding Arrangements**

~~46.17.~~ An entity shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

- (a) The binding arrangements are negotiated as a package with a single objective;
- (b) The amount of resources to be transferred in one binding arrangement depends on the consideration or performance of the other binding arrangement; or
- (c) The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right in accordance with paragraph 21.

## Transfer Expenses from Transactions without Binding Arrangements

### Recognition

**17-18.** For transfer expenses without binding arrangements, an entity shall recognize expenses as follows:

- (a) At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognized provision; or
- (b) If a constructive or legal obligation to transfer resources does not exist, when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

### Measurement

**18-19.** When a provision is recognized in the situations described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.

**19-20.** When an entity recognizes an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.

## Transfer Expenses from Transactions with Binding Arrangements

### Identifying Transfer Rights

**20-21.** At the inception of a binding arrangement to transfer resources, an entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:

- (a) A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or
- (b) A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.

Paragraphs AG31-AG34 provide additional guidance on identifying transfer rights.

### Recognition of Transfer Expenses

**21-22.** When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognized, and a transfer right asset is recognized for the transfer rights arising from the binding arrangement.

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.



**22-23.** Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognized when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 35-37).

**23-24.** For transfer expenses with binding arrangements, an entity shall recognize expenses:

- (a) When (or as) a transfer right asset is derecognized; or
- (b) When a transfer obligation liability is recognized.

**24-25.** The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 21, the transfer right is extinguished when (or as) the entity no longer has enforceable rights in accordance with the binding arrangement.

Paragraphs AG35-AG49 provide additional guidance on the recognition of transfer expenses.

### **Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient**

**25-26.** After the recognition of a transfer right asset, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. Where the entity has an enforceable and unconditional right to the receipt refund of previously transferred cash or other financial assets arising from the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances, the entity shall derecognize the transfer right asset and recognize a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with IPSAS 41, *Financial Instruments*. (See paragraph 43 for situations where a transfer right asset still exists but is impaired.)

### **Modifications to a Binding Arrangement**

**26-27.** A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes to existing enforceable rights and obligations of the parties to the binding arrangement. An entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

**27-28.** An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions exist:

- (a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights (see paragraphs AG31-AG34), because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and
- (b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.

**28-29.** If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 28, an entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement. The entity shall determine the accumulated transfer expense to be recognized as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined as at the date of the modification and the accumulated transfer expense previously recognized shall be recognized in surplus or deficit as at the date of the modification.

## Measurement

**29-30.** An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see paragraphs 35-37).

**30-31.** When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.

**31-32.** When a transfer expense is recognized from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with paragraph 38.

**32-33.** When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.

**33-34.** To determine the transfer consideration, an entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

## Variable Consideration

**34-35.** The resources required to be transferred by a binding arrangement can vary for items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The resources can also vary if the entity's obligation to transfer the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the transfer recipient if it satisfies its obligations in the binding arrangement within a specified period.

**35-36.** For a transfer expense transaction, variable consideration in a binding arrangement may result in a liability of uncertain timing or amount, which meets the definition of a provision in IPSAS 19.

**36-37.** If the entity has determined that it is more likely than not that a present obligation exists for the transfer of variable consideration, the entity shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.

## **Allocating the Transfer Consideration to Transfer Rights**

**37.38.** When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.

**38.39.** Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:

- (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or
- (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).

Paragraphs AG50-AG51 provide additional guidance on allocating the transfer consideration to transfer rights.

## **Changes in the Transfer Consideration**

**39.40.** After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity is obligated to pay in the binding arrangement.

**40.41.** An entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognized as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.

**41.42.** An entity shall account for a change in the transfer consideration that arises from a modification to a binding arrangement in accordance with paragraphs 27-29.

## **Impairment of a Transfer Right Assets**

**42.43.** After the recognition of a transfer right asset, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. When this occurs, and the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances do not support the recognition of a financial asset as noted in paragraph 26, the entity shall assess the transfer right asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

## **Presentation**

### **Display**

**43.44.** For transfer expenses from transactions without binding arrangement, if an entity recognizes a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in paragraphs 88, 94, and 107 of IPSAS 1.

**44-45.** For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, an entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 22-23.

**45-46.** An entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in paragraphs 76, 90, 91, and 94 of IPSAS 1.

**46-47.** When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity presents the financial asset in accordance with the requirements in IPSAS 28, *Financial Instruments: Presentation*.

**47-48.** An entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in paragraphs 80 and 88 of IPSAS 1.

**48-49.** As required by paragraph 109 of IPSAS 1, an entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity. Paragraph 111 of IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made.

Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

## Disclosure

**49-50.** The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:

- (a) Transfer expenses and related balances (see paragraphs 53-58);
- (b) Transfer arrangements (see paragraphs 59-60); and
- (c) The significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).

**50-51.** In making the disclosures required by this [draft] Standard, an entity shall consider the requirements of paragraphs 45-47 of IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

**51-52.** An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

### *Transfer Expenses and Related Balances*

**52-53.** As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by IPSAS 1. This analysis can be presented on the face of the statement of financial performance or disclosed in the notes.

Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

**53-54.** In addition to the analysis of expenses, an entity shall provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to able users to understand how the entity's resources are spent on its programs, activities, and services.

**54-55.** When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity applies the disclosure requirements for financial assets from IPSAS 30, *Financial Instruments: Disclosures*.

**55-56.** A transfer obligation liability which arose from an obligation to transfer cash meets the definition a financial liability measured at amortized cost. Therefore, the disclosure requirements from IPSAS 30 for payables are applicable to such liabilities.

**56-57.** If a liability has been recognized for variable consideration (see paragraphs 35-37), an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

**57-58.** For transfers from transactions without binding arrangements, when a liability is recognized for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

### *Transfer Arrangements*

**58-59.** An entity shall disclose information about its transfer binding arrangements including a description of the following:

- (a) The purpose of the transfer binding arrangements;
- (b) Significant payment terms;
- (c) Nature of the resources that have been or will be transferred; and
- (d) Significant risks and uncertainties relating to the realization of transfer rights assets.

The above information can be aggregated for binding arrangements that are of a similar nature.

**59-60.** An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements, an entity shall disclose the following:

- (a) The purpose of the transfer arrangements;
- (b) Significant payment terms, if any; and
- (c) Nature of the resources that have been or will be transferred.

The above information can be aggregated for arrangements that are of a similar nature.

## *Significant Judgements, and Changes in Judgements, Made Regarding the Recognition of Transfer Right Assets from Transfer Expense Transactions*

**60-61.** An entity shall disclose the significant judgements, and changes in judgements, made regarding the recognition of transfer right assets from transfer expense transactions. In particular, an entity shall explain the basis for the recognition of its transfer right assets.

## **Effective Date and Transition**

### **Effective Date**

**61-62.** An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier ~~adoption application~~ is **encouraged/permitted**. If an entity applies this [draft] Standard for a period beginning before January 1, [Year], it shall disclose that fact and shall apply [draft] IPSAS [X], *Revenue*, at the same time.

**62-63.** When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

### **Transition**

**63-64.** An entity shall apply this [draft] Standard using one of the following two methods:

- (a) Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or
- (b) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Application Guidance

This Appendix is an integral part of [draft] IPSAS [X].

AG1. This application guidance is organized into the following categories:

- (a) Scope (paragraphs AG2-AG3);
- (b) Definitions (paragraphs AG4-AG9);
- (c) Identifying the Transfer Expense Transaction (paragraph AG10);
- (d) Binding Arrangements and Enforceability (paragraphs AG11-AG29);
- (e) Derecognition of the Transferred Resources (paragraph AG30);
- (f) Identifying Transfer Rights (paragraphs AG31-AG34);
- (g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35-AG49);
- (h) Allocating the Transfer consideration to Transfer Rights (paragraphs AG50-AG51); and
- (i) Presentation: Display (paragraph AG52);
- (j) Specific Application Issues (paragraphs AG53-AG55).

### Scope (paragraphs 3-5)

AG2. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or other asset to another entity without directly receiving any good, service, or other asset in return.

AG3. This [draft] Standard does not address transactions where an entity receives any good, service, or other asset in return for the good, service, or other asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

### Definitions (paragraphs 6-7)

#### *Binding Arrangement*

AG4. An entity shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

#### *Transfer Expense*

AG5. This [draft] Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which an entity (the entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, an individual or another entity) without directly receiving any good, service, or other asset in return.

AG6. As noted in paragraph AG9, a transfer right asset is not considered a good, service, or other asset that is received directly from the transfer recipient.

### *Transfer Obligation and Transfer Obligation Liability*

AG7. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations from a binding arrangement to transfer resources as transfer obligations. The liability recognized for the existence of one or more transfer obligations arising from a binding arrangement is referred to as a transfer obligation liability.

### *Transfer Recipient*

AG8. A transfer recipient is an entity (which may be a public sector entity, a not-for-profit organization, an individual or another entity) that receives a good or service from another entity without directly providing any good or service to that entity. While the transfer recipient does not provide any good or service to the entity, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the entity.

### *Transfer Right and Transfer Right Asset*

AG9. An entity's transfer right is the enforceable right to have the transfer recipient satisfy its obligations and arises where the entity has transferred resources to the transfer recipient in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations within the binding arrangement. A transfer right asset is not a good, service, or other asset to be directly received by the entity in return for transferring resources to the transfer recipient because:

- (a) A transfer right asset is not a good or service;
- (b) The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity.
- (c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.

### **Identifying the Transfer Expense Transaction (paragraphs 8-9)**

AG10. This [draft] Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

### **Binding Arrangements and Enforceability (paragraphs 10-16)**

#### *Binding Arrangement*

AG11. A Binding arrangement, which is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations in the arrangement.



AG11-AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

AG12-AG13. In accordance with paragraph 11, the assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.

AG13-AG14. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient satisfy its obligations. This standard refers to these rights as transfer rights.

### *Enforceability*

AG14-AG15. The interdependent rights and obligations in an ~~binding~~ arrangement must be enforceable ~~to meet the definition of binding arrangement~~. Enforceability ~~of a binding arrangement~~ can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the ~~terms of the binding~~ arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability ~~of a binding arrangement~~ occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that ~~binding~~ arrangement.

AG15-AG16. Since ~~binding arrangements and enforcement of such arrangements enforceability~~ can arise from various mechanisms, an entity should objectively assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the ~~binding~~ arrangement.

AG16-AG17. In the public sector, an arrangement is enforceable when each of the involved parties is able to enforce their respective rights and obligations through various mechanisms. An arrangement is enforceable by another party if the agreement includes:

- (a) Distinct rights and obligations for each involved party; and

- (b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.

~~AG17. A key characteristic of a binding arrangement is the ability of each party to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the entity) must be able to enforce satisfaction of the obligations assumed by the transfer recipient.~~

AG18. When an entity assesses ~~the enforceability of a binding arrangement~~, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the ~~binding~~ arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the ~~binding~~ arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG20. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the agreed-upon obligations in the arrangement.

AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. ~~The key determining factor is that e~~Each party must be able to enforce the promises made in the ~~binding~~ arrangement ~~to meet the definition of a binding arrangement~~. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.

AG22. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the ~~binding~~ arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity this may result in a valid enforcement mechanism.

AG23. A transfer recipient may feel compelled to deliver on the obligations in an ~~binding~~ arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in funding if other ~~binding~~ arrangements are breached, then the potential reduction in funding could be considered a valid enforcement mechanism.

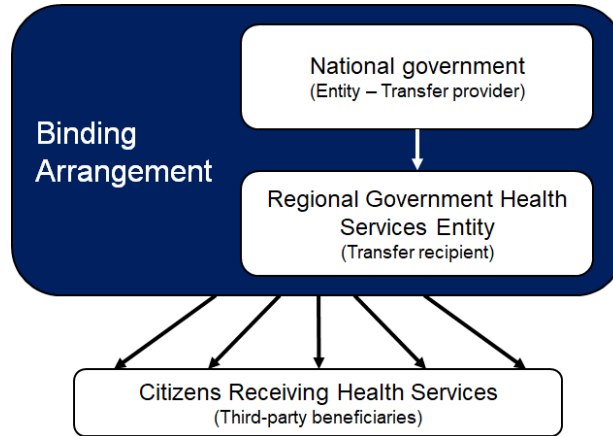
- AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.
- AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

### *Parties in a Binding Arrangement*

- AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.
- AG27. That is, at a minimum, the entity must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



- AG28. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services because they are not parties to the binding arrangement.
- AG29. However, for these multi-party arrangements to be classified as transfer expenses with binding arrangements, the entity must have the ability to force the transfer recipient to deliver goods, services, or other assets to the third-party beneficiaries. In these multi-party arrangements, the transfer recipient is not an agent of the entity because the transfer recipient gains control of the resources from the entity and is responsible for providing goods, services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram.



### **Derecognition of the Transferred Resources (paragraphs 18 and 22)**

AG30. For both transfer expenses transactions with and without binding arrangements:

- (a) Prior to the transfer of a non-financial asset to a transfer recipient, the entity should consider paragraph 27(d) of IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment;
- (b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets are assessed continuously in accordance with the requirements of IPSAS 41; and
- (c) When the transferred resources are derecognized, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

### **Identifying Transfer Rights (paragraph 21)**

AG31. Transfer rights provide the basis of recognition and measurement for transfer expenses. This [draft] Standard requires transfer expenses with binding arrangements to be recognized as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.

AG32. A transfer right is identified as a distinct right that can be enforced separately from other rights in the arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.

AG33. The entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.

AG34. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligation that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

## **Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs 22-25)**

### *Recognition at Inception of a Binding Arrangement*

- AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and cannot be separated. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.
- AG36. Individual transfer rights and transfer obligations are recognized as items (assets, liabilities and expenses depending on their nature) only as one or more parties to the binding arrangement satisfies their stated obligations. An entity shall account for these items in accordance with paragraphs 22-25.
- AG37. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

### *Derecognition of the Transfer Right Asset*

- AG38. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of their obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the entity's corresponding transfer right is extinguished.
- AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligation, the transfer right asset shall be expensed immediately.
- AG40. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgment and consider materiality.

- AG41. In some situations, a transfer right asset may be derecognized when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26.) A transfer right asset may also be derecognized if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG15).
- AG42. If the entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognized upon the transfer of resources.

#### *Recognition of a Transfer Obligation Liability*

- AG43. If the transfer recipient has satisfied its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date. As the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognizes a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognized liability.
- AG44. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.
- AG45. In some binding arrangements, an entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement. If an entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to satisfy its obligations and require the entity to pay the consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the entity to satisfy its transfer obligations.
- AG46. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement.
- AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for satisfaction of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for satisfaction of its obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration

transferred by the entity is refundable for reasons other than the transfer recipient failing to satisfy its obligations as promised in the binding arrangement.

### *Interaction Between Transfer Right Assets and Transfer Obligation Liability*

- AG48. After recognition, the transfer right asset shall be increased by the carrying amount of additional resources transferred and decreased by the amount of expenses or any impairment recognized, until the carrying amount of the transfer right asset is zero. At that point, any further satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.
- AG49. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognized and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognized as a transfer right asset.

### **Allocating the Transfer consideration to Transfer Rights (paragraphs 38-39)**

- AG50. Where a binding arrangement specifies the amount of ~~transfer-stand-alone~~ consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).
- AG51. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.

### **Presentation and Disclosure (paragraphs 44-61)**

- AG52. Paragraph 49 requires transfer expenses to be included in the analysis of expenses, either presented on the face of the statement of financial performance or disclosed in the notes. To meet this requirement and the disclosure objective in paragraph 50, an entity shall provide sufficient information in the analysis of expenses, along with the description of the nature of the entity's operations and principal activities as required by paragraph 150 of IPSAS 1, to enable users to understand how the entity's resources are spent on its programs, activities and services.

### **Application of Principles to Specific Transactions**

#### *Capital Transfers*

- AG53. This [draft] Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or ~~comply with non-compliance requirements face the consequences~~ as specified in the binding arrangement.
- AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21-25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22-25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon the transfer of resources, the entity typically recognizes a transfer right

asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

- AG55. Some binding arrangements for capital transfers may include a transfer right for the construction or acquisition of a non-financial asset, which meets the definition of a capital transfer, and separate transfer rights for the operation of the asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset once constructed or purchased.

DRAFT



## Amendments to Other IPSAS

### Amendments to IPSAS 4, The Effects of Changes in Foreign Exchange Rates

Paragraph 17 is amended, and paragraph 71J is added. New text is underlined, and deleted text is struck through.

...

#### Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; lease liabilities; and cash dividends or similar distributions that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services; transfer right assets; goodwill; intangible assets; inventories; property, plant, and equipment; right-of-use assets; and provisions that are to be settled by the delivery of a non-monetary asset.

...

#### Effective Date

...

- 71J. Paragraph 17 was amended by [draft] IPSAS [X], *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, [Year], it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.

...

### Amendments to IPSAS 12, *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 51F is added. New text is underlined, and deleted text is struck through.

...

#### Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for

donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. ...

...

### Measurement of Inventories

...

17. Inventories shall be measured at the lower of cost and current replacement cost where they are held for:
- (a) Distribution at no charge (a transfer expense) or for a nominal charge; or
  - (b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge.

...

### Distributing Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

### Recognition as an Expense

44. When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognized ~~when the goods are distributed or the related service is rendered~~ in accordance with [draft] IPSAS [X], *Transfer Expenses*. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

...

### Effective Date

...

- 51J. Paragraphs 11, 17, 43 and 44 were added by [draft] IPSAS [X], *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If

an entity applies the amendments for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] (ED 72) at the same time.

...

## **Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)**

Paragraphs 41A, 43A, 43B and 154O are added. New text is underlined, and deleted text is struck through.

...

## **Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition**

...

### **Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities**

*Recognition and/or Measurement of Assets and/or Liabilities*

...

41A. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allow a three year transitional relief period to not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses in terms of [draft] IPSAS [X], Transfer Expenses.

...

*Recognition and/or Measurement of Transfer Expenses*

43A. A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis.

43B. The transitional provision in paragraph 43A is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring transfer expenses in accordance with [draft] IPSAS [X], Transfer Expenses, during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of transfer expenses that do not comply with the provisions of [draft] IPSAS [X]. The transitional provision in paragraph 43A allows a first-time adopter to apply [draft] IPSAS [X] incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure transfer expenses without binding arrangements in accordance with [draft] IPSAS [X] from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for recognizing and measuring transfer expenses with binding arrangements.

...

## **Implementation Guidance**

*This guidance accompanies, but is not part of, IPSAS 33.*

...

**[draft] IPSAS [X], *Transfer Expenses***

IG89A. If a first-time adopter applies [draft] IPSAS [X] on a retrospective basis and has transferred amounts that do not yet qualify for recognition as expense (for example, the transfer of resources where the related transfer right has not yet been extinguished), the first-time adopter recognizes the amounts received as an asset in its opening statement of financial position and measures that asset at the amount transferred. It shall derecognize the asset and recognize the expense in its statement of financial performance when the recognition criteria in [draft] IPSAS [X] are met.

...

**Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSASs***

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs.

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
...								
[Draft] IPSAS [X], <i>Transfer Expenses</i>			✓ All transfer expenses not recognized under previous basis of accounting	✓ All transfer expenses recognized under previous basis of accounting	✓ To extent that 3-year relief period was adopted for assets and/or liabilities			

...

**Effective Date**

1540. Paragraphs 41A, 43A and 43B were added by [draft] IPSAS [X], *Transfer Expenses*, issued in [Month] [Year]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, [Year] it shall disclose that fact and apply [draft] IPSAS [X] at the same time.

...

## Amendments to IPSAS 40, Public Sector Combinations

Paragraphs IE164 and IE264 are amended. New text is underlined, and deleted text is struck through.

...

### Illustrative Examples

...

### Accounting for Amalgamations

...

### Eliminating Transactions between the Combining Operations – Transfers

*Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40*

...

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. ~~Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the grant, but accounted for the full CU700 as an expense. Upon the transfer of funds, COA recognized a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognizes CU350 of the transfer right asset and recognizes the amount as a transfer expense.~~

...

IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its performance obligation, in accordance with IPSAS 23. ~~Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the grant, but accounted for the full CU800 as an expense. Upon the transfer of funds, AE recognized a transfer right asset for its right to have TE deliver the training courses. Immediately prior to the acquisition, based on TE's performance to date, AE derecognizes CU200 of the transfer right asset and recognizes the amount as a transfer expense.~~

...

## Amendments to IPSAS 42, Social Benefits

Paragraph IG2 is amended. New text is underlined, and deleted text is struck through.

...

*This guidance accompanies, but is not part of, IPSAS 42*

...

**Scope of IPSAS 42**

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

	<u>Transfer Expenses</u>	Non-Exchange Expenses Project			Social Benefits	Other IPSAS/IFRS		
Category	<b>Grants, Contributions and Other Transfers Expenses</b>	<b>Emergency Relief</b>	<b>Collective Services</b>	<b>Individual Services</b>	<b>Social Benefits</b>	<b>Employee Benefits</b>	<b>Contracts for Insurance</b>	<b>Contracts for Goods and Services</b>
Examples	Grants Transfers to other public sector entities Grants Transfers to charities	Emergency relief Planning and preparation activities	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Type Transactions?	<u>Non-Exchange</u>	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	<u>Sometimes</u>	Sometimes	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	<u>Sometimes</u>	Sometimes	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	<u>No</u>	No	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	<u>Sometimes</u>	No	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X].*

### Introduction

- BC1. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services, and transfer expenses accounts for a significant portion of their expenditures.
- BC2. In March 2015, the IPSASB approved a project brief to develop the requirements for accounting for non-exchange expenses, other than social benefits. The project brief acknowledged that there has~~ed~~ been little guidance on ~~the~~ non-exchange transactions from the provider's perspective and that this area was a gap in the IPSASB's literature.
- BC3. The IPSASB undertook a phased program of work to address non-exchange transactions from the provider's perspective, beginning with IPSAS 42, *Social Benefits*, which was issued in January 2019, then continuing with *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020.
- BC4. For the remaining non-exchange expenses, the IPSASB released a Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017 to seek constituent views on potential recognition and measurement for both revenue and non-exchange expenses. The CP:
- (a) Proposed replacing the then-current IPSAS dealing with revenue from exchange transactions and construction contracts with an IPSAS based on IFRS 15, *Revenue from Contracts with Customers*;
  - (b) Proposed updating IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to address issues identified by users; and
  - (c) Considered recognition approaches for significant non-exchange expense transactions.

### *Development of Exposure Draft (ED) 72, Transfer Expenses*

- BC5. Based on constituents' feedback on the CP, the IPSASB developed ED 72, *Transfer Expenses*. The ED:
- (a) Proposed a definition for transfer expense;
  - (b) Proposed the classification of transfer expenses based on whether the transfer recipient has at least one performance obligation; and
  - (c) Proposed accounting and disclosure requirements for:
    - (i) Transfer expenses without performance obligations; and
    - (ii) Transfer expenses with performance obligations, which ~~were~~ largely based on application of the Public Sector Performance Obligation Approach (PSPOA) and mirrored the accounting for revenue with performance obligations.
- BC6. In February 2020, the IPSASB published ED 72, together with ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. The three exposure drafts

were released together to highlight the linkages between the accounting for revenue and transfer expenses.

### *Feedback from Constituents on ED 72, Transfer Expenses*

BC7. The IPSASB received a broad and diverse set of comment letters in response to ED 72. While the feedback indicated that some constituents supported the proposals, the following significant concerns were also identified:

- (a) The distinction between transfer expenses with and without performance obligations appeared to be unnecessary or artificial, as there was no economic difference between these transactions from a transfer provider's perspective;
- (b) The distinction based on performance obligations also did not reflect the way transfer expense transactions were carried out in the public sector, as under ED 72, only transfer expenses where the transfer recipient had at least one performance obligation could result in the recognition of an asset. Many respondents identified examples of transactions where they retained control over the transferred resources (and thus did not immediately derecognize the asset), even if the transfer did not involve performance obligations;
- (c) The proposals in ED 72 required a transfer provider to consider the transaction from the transfer recipient's perspective and assumed that the transfer provider has access to information regarding the transfer recipient's performance obligations. Many respondents noted that this assumption is not realistic and will lead to practical difficulties in applying the proposed guidance;
- (d) In ED 72, only transfer expenses with performance obligations could result in the recognition of an asset. Respondents noted that this accounting model did not necessarily achieve consistency in accounting principles, particularly with asset recognition principles in The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the IPSASB's Conceptual Framework); and
- (e) The majority of respondents commented that because the proposed disclosures in ED 72 were based on the disclosure requirements from IFRS 15, they did not reflect the nature of transfer expenses, which have different characteristics and risks. Some respondents noted that the proposed disclosures would also impose an administrative burden that is disproportionate to any benefits for users.

### *Discussion with the IPSASB Consultative Advisory Group (CAG)*

BC8. The IPSASB consulted the CAG at their December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

### *IPSASB's Response to Feedback on ED 72*

BC9. In light of the responses to ED 72, the IPSASB decided not to proceed with the proposals in ED 72 and to revisit the proposed accounting and disclosures for transfer expenses to:

- (a) Use the transfer provider's perspective when developing accounting and disclosure requirements;



- (b) Move away from the PSPOA and the distinction between transfer expenses with and without performance obligations;
- (c) Focus on whether the transfer results in the recognition of an asset when developing accounting requirements;
- (d) Use binding arrangements as a fundamental concept for transfer expense accounting; ~~and~~
- (e) Where appropriate, simplify presentation and disclosure requirements; and-
- (f) Revise the illustrative examples to reflect the above changes in the proposed accounting and disclosures for transfer expenses.

### Scope (paragraphs 3-5)

- BC10. When the IPSASB developed ED 72, the Board had noted that the main group of non-exchange expense transactions which were not already addressed by IPSAS 41, *Financial Instruments*, IPSAS 42 or the amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, consisted of grants, contributions, and other transfers. The IPSASB noted at the time that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks and that aligning the scope of ED 72 with the definition of 'transfers' in the statistical reporting frameworks would be consistent with the IPSASB's Policy Paper, *Process for Considering GFS Reporting Guidelines During Development of IPSASs*. As a result, the IPSASB agreed to align the scope of ED 72 with the definition of 'transfers' (see paragraph 6) in the statistical reporting frameworks. This scoping decision was retained in [draft] IPSAS [X], *Transfer Expenses*.
- BC11. The IPSASB also decided that contributions from owners and distributions to owners did not meet the definition of transfers and were consequently outside the scope of [draft] IPSAS [X].
- BC12. The IPSASB considered whether [draft] IPSAS [X] should explicitly state that onerous contracts are not applicable to transfer expenses and noted that when IPSAS 19, ~~*Provisions, Contingent Liabilities and Contingent Assets*~~, was developed from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the definition of onerous contract was modified to explicitly refer to the exchange of assets or services. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that transfer expenses could not meet the definition of onerous contracts. Therefore, no explicit scope exclusion is required.

### Definitions (paragraphs 6-7)

- BC13. As noted in paragraph BC10, the IPSASB had decided to align the definition of transfers with the definition in the statistical reporting frameworks. The *Government Finance Statistics Manual 2014* (GFSM 2014) defines a transfer as follows:
- A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.*
- BC14. Having agreed to use the GFSM 2014 definition of transfers as the basis for the scope of ED 72, the IPSASB had agreed to base the definition of 'transfer expenses' in ED 72 on the GFSM definition. The IPSASB had agreed to adopt the term 'transfer expenses,' as the term 'transfers' had previously been used in IPSAS 23, where the term 'transfers' referred to inflows (i.e., revenue)

only. In IPSAS 23, the term 'transfers' also excluded taxes, and the IPSASB had agreed to exclude taxes from the definition of 'transfer expenses' for consistency.

- BC15. The definition of transfer expenses and the exclusion of taxes was retained in [draft] IPSAS [X], as the definition of transfers in [draft] IPSAS [Y], *Revenue*, also only referred to revenue and excluded taxes.
- BC16. As noted in paragraph BC9, the IPSASB decided to revisit the proposed accounting model for transfer expenses. Based on the revisions, as explained in paragraphs BC20-BC30, the IPSASB agreed to define the following terms in [draft] IPSAS [X]:
- (a) Transfer obligation;
  - (b) Transfer obligation liability;
  - (c) Transfer right; and
  - (d) Transfer right asset.
- BC17. [Draft] IPSAS [X] complements [draft] IPSAS [Y] and relies on certain definitions in [draft] IPSAS [Y] where possible (see paragraph 7). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to define the following additional terms in [draft] IPSAS [X]:
- (a) Stand-alone consideration; and
  - (b) Transfer consideration.

These definitions are based on the definitions of 'stand-alone value' and 'transaction consideration' in [draft] IPSAS [Y].

- BC18. This Standard refers to the party providing resources in a transfer expense transaction as the 'transfer provider', while [draft] IPSAS [Y] refers to the party providing resources in a revenue transaction as the 'resource provider'. The IPSASB considered whether the same term should be used in both [draft] Standards and decided that because the scope of ~~the revenue standard~~ [draft] IPSAS [Y] is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.
- BC19. The IPSASB also considered the definition of 'expenses' in IPSAS 1, *Presentation of Financial Statements*, as well as the definition of 'constructive obligations' in IPSAS 19 and concluded that no changes were required. The IPSASB agreed to include cross-references to these definition in [draft] IPSAS [X] (see paragraph 7 of [draft] IPSAS [X]).

### Identifying the Transfer Expense Transaction (paragraphs 8-9)

- BC20. Based on the decision to revisit the general accounting model for transfer expenses, the IPSASB decided that the key transfer expense accounting principle is whether the transaction results in the recognition of an asset by the entity. Transfer transactions which do not result in the recognition of an asset are generally recognized as a transfer expense when the entity loses control of the transferred resources or when the entity has incurred an obligation to transfer resources. The IPSASB also decided that when the entity has incurred an obligation to transfer resources, it recognizes a liability and a transfer expense.

BC21. To operationalize the decisions in paragraph BC20, the IPSASB noted that whether the transaction arises from a binding arrangement provides inputs into the assessment of whether the asset recognition criteria is met and whether the entity has an obligation to transfer resources. Therefore, the IPSASB decided to move away from the classification based on performance obligations and to classify transfer expenses based on whether they arose from transactions with or without binding arrangements.

### **Binding Arrangements and Enforceability (paragraphs 10-17)**

BC22. The decision to classify transfer expenses based on whether or not the transfer expense arose from a binding arrangement is consistent with the decision on how revenue should be ~~classified~~categorized. As outlined in the Basis for Conclusions in [draft] IPSAS [Y] ~~(see paragraphs BC15-BC30, BC43-BC48, and BC116-BC125 of [draft] IPSAS [Y] for details)~~, the IPSASB clarified the impact of binding arrangements and enforceability in IPSAS [Y] and agreed that these clarifications also apply to transfer expenses.

BC23. ~~As a result, when the IPSASB revisited the accounting model for transfer expenses, the Board agreed to carry over the guidance on binding arrangements and enforceability from [draft] IPSAS [Y], as the principles were equally applicable to transfer expense transactions.~~ This decision had the following impacts on the development of [draft] IPSAS [X]:

- (a) The definition of a 'binding arrangement' was carried over from [draft] IPSAS [Y];
- (b) The guidance on how to determine if an arrangement is enforceable through legal or equivalent means by considering all relevant factors and whether the arrangement meets the definition of a binding arrangement ~~was~~were also carried over;
- (c) ~~Like IPSAS [Y], e~~Enforceability is based on the entity's ability to enforce the terms of the binding arrangement, including imposing ~~consequences-non-compliance requirements~~ on parties that do not fulfill their agree-upon obligations;
- (d) ~~Like IPSAS [Y], t~~The assessment of enforceability for transfer expenses occurs at the inception of a binding arrangement and when a significant internal or external change indicates that there may be a change in enforceability;
- (e) ~~The concept that i~~In a binding arrangement, each party will have at least one enforceable right and one obligation was adopted;
- (f) ~~Like revenue arising from transactions with binding arrangements, f~~For transfer expenses with binding arrangements, there is no initial recognition when ~~none of the parties~~es has started to satisfy its stated obligations under the binding arrangement;
- (g) Because an entity's right and obligation within a binding arrangement are directly linked and interdependent, when both the entity and transfer recipient begin to perform in accordance with the binding arrangement, the resulting transfer right assets and transfer obligation liabilities arising from the same binding arrangement are presented as a single asset or liability in the statement of financial position; and
- (h) ~~Where~~Where a transfer expense arises ~~ing~~ing from a transaction that is subject to an appropriation, the appropriation may limit the enforceability of the related arrangements and impact whether they are binding. The IPSASB noted that this conclusion results from the application of the

principles on binding arrangements and enforceability, and therefore developed implementation guidance on how appropriations could impact transfer expense transactions.

### **Transfer Expenses from Transactions without Binding Arrangements (paragraphs 18-20)**

- BC24. The IPSASB decided when a transfer expense arises from a transaction without a binding arrangement, there is no basis for the recognition of a transfer right asset from the transfer of resources. (That is, the recognition of a transfer right asset is only possible when a transfer arises from a binding arrangement—see paragraph BC27.) In these cases, the IPSASB decided that when the transfer occurs and control of the asset is lost, the entity derecognizes the transferred asset and recognizes a transfer expense at the asset's carrying amount.
- BC25. The IPSASB noted that even when there is no binding arrangement, an entity may still have a one-way enforceable right which results in retaining control of the resources after they are transferred. In these cases, the entity would consider the principles in the [Conceptual Framework and](#) IPSAS 1, and whether it should recognize an asset. Because this asset's recognition is driven by the definition of an asset in IPSAS 1, the IPSASB decided to include implementation guidance on these situations, and no additional authoritative text is required.
- BC26. The IPSASB also noted that even when there is no binding arrangement, if facts and circumstances result in a legal or constructive obligation to transfer resources, the entity is required to recognize a liability in accordance with IPSAS 19. [Draft] IPSAS [X] refers to this liability as a transfer obligation liability.

### **Transfer Expenses from Transactions with Binding Arrangements (paragraphs 21-43)**

#### *Recognition*

- BC27. The IPSASB decided that when an entity begins to transfer resources as specified in a binding arrangement, the transfer results in a transfer right (i.e., the transfer provider's enforceable right to have the transfer recipient fulfill its obligations, or ~~face the consequences carry out the non-compliance requirements~~ outlined in the binding arrangement) which meets the definition of an asset in the IPSASB's Conceptual Framework. This is because:
- (a) The transfer right embodies a resource (i.e., the right to direct how the transfer recipient is to use resources internally);
  - (b) The binding arrangement provides the transfer provider with control of the transfer right; and
  - (c) This control arises from a past event (i.e., the transfer of resources within the context of a binding arrangement).
- BC28. The IPSASB decided that an asset recognized to reflect the existence of a transfer right shall be referred to as a transfer right asset. When or as the entity's transfer right is extinguished, the basis of asset recognition no longer exists. Therefore, the related transfer right asset is derecognized and expensed.
- BC29. The IPSASB also decided that when a transfer recipient has satisfied its obligations in a binding arrangement, the entity is obligated by the terms of the binding arrangement to transfer resources.

This obligation results in the recognition of a liability in accordance with the IPSASB's Conceptual Framework<sup>3</sup>, and [draft] IPSAS [X] refers to such a liability as a transfer obligation liability.

### *Measurement*

BC30. The IPSASB made the following decisions regarding the measurement of transfer expenses arising from transactions with binding arrangements:

- (a) Similar to transfer expenses from transactions without binding arrangements, the transfer consideration is measured based on the total carrying amount of the transferred resources, adjusted for the effects of variable consideration;
- (b) The guidance on variable consideration should refer to the existing recognition and measurement guidance for a provision in IPSAS 19. This is because variable consideration for a transfer expense is of a similar nature as a provision (i.e., a liability of uncertain timing and amount);
- (c) The requirement in ED 72 to consider the time value of money and the effect of financing was removed. Many respondents to ED 72 noted that transfers are typically funded in tranches rather than one large upfront payment, so it would be rare for the discounting of transfers to have a material impact on the financial statements; and
- (d) The allocation of the transfer consideration to the individual transfer rights in a binding arrangement should be based on the amounts stated in the binding arrangement, or if not explicitly stated, the amounts that the entity intended to compensate the transfer recipient for satisfying each of its compliance obligations in the binding arrangement. The IPSASB noted that this simplification is appropriate because:
  - (i) A transfer provider would be fully aware of how much it is willing to pay for each transfer right when negotiating the binding arrangement with the transfer recipient; and
  - (ii) The allocation requirements are more robust for revenue because in addition to potentially changing the timing of revenue recognition, an inappropriate allocation for revenue could obscure the margins for certain goods or services or delay the recognition of losses. These additional concerns are not applicable for transfer expenses.

### **Presentation (paragraphs 44-61)**

BC31. As noted in paragraph BC7(e), respondents to ED 72 raised concerns that the proposed disclosures were overly burdensome and did not focus on the nature and risks of transfer expense transactions. To address these concerns, the IPSASB decided to significantly reduce the required display and disclosures requirements to focus on the following areas:

- (a) Display and disclosure of transfer expenses and related balances – The IPSASB noted that many of the display and disclosure requirements in existing IPSAS are applicable to transfer expenses and related balances. These include:

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<sup>3</sup> The IPSASB referred to the definition of a liability in the Conceptual Framework rather than IPSAS 1 at this stage, as IPSAS 1 has not yet been updated for the proposed changes to the framework.

- (i) The analysis of expenses, as well as the display and disclosure of prepayment assets and transfers payable in IPSAS 1, *Presentation of Financial Statements*;
- (ii) The display and disclosure requirements in IPSAS 28, *Financial Instruments: Presentation*, and IPSAS 30, *Financial Instruments: Disclosures*, are applicable to financial assets, as well as transfer obligation liabilities which meet the definition of financial liabilities, which arose from a transfer expense transaction; and
- (iii) The display and disclosure requirements in IPSAS 19 are applicable to provisions recognized for constructive obligations or variable consideration.

As a result, the IPSASB decided to cross-reference to these requirements rather than developing new display and disclosure requirements;

- (b) Qualitative information regarding transfer arrangements – To enable users of the financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses, the IPSASB decided to require the disclosure of certain qualitative information regarding both binding and non-binding transfer arrangements; and
- (c) Significant judgements made regarding the recognition of transfer right assets – Because expenditures for programs and activities are typically expensed in the statement of financial performance, the recognition of a transfer right asset is not in line with general expectations. Therefore, the IPSASB decided to require the disclosure of significant judgements that led to the recognition of transfer right assets.

BC32. In addition, respondents to ED 72 had previously raised concerns over the complexity and value of reconciliations for opening and ending balances of transfer right assets and transfer obligation liabilities. Respondents also noted that these items are similar in nature to prepayment assets and transfers payable, which do not require such disclosures. Based on the feedback received, the IPSASB decided to remove the requirement to disclose these reconciliations.

BC33. The IPSASB decided to use the terms ‘transfer provider’, ‘transfer recipient’, ‘transfer right asset’ and ‘transfer obligation liability’ but this [draft] Standard does not prohibit an entity from using alternative descriptions in the financial statements for those terms. In addition, because this [draft] Standard refers to the disclosure requirements in other IPSAS as noted in paragraph BC31, an entity need not repeat the disclosure of information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

### **Effective Date and Transition (paragraphs 62-64)**

BC34. When ED 72 was developed, the transition provisions, including the practical expedients available, largely mirrored those from the revenue EDs. Some respondents noted that even with the practical expedients, the retrospective transitional provisions in ED 72 were onerous, with benefits not outweighing the costs, and could lead to practical difficulties in applying the final standard.

BC35. Based on the feedback received, the IPSASB noted that allowing prospective application of [draft] IPSAS [X] would not result in a significant loss of information because:

- (a) If a transfer expense was fully expensed in the prior period, the transfer of resources would have already occurred and would have been reported in the prior period financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with

the revised guidance, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure; and

- (b) If an entity recognized an asset or liability for a transfer expense transaction by applying the asset or liability recognition and measurement principles of the IPSASB's Conceptual Framework, these principles are already consistent with the revised accounting model for transfer expenses.

BC36. Based on the above reasons, the IPSASB decided to allow prospective application of [draft] IPSAS [X] for all transfers occurring on or after the date of initial application. To provide entities with the flexibility to adjust their prior-period financial statements, the IPSASB also decided to include the option to adopt [draft] IPSAS [X] on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

### **Application Guidance**

- BC37. The IPSASB considered the interaction between transfer expenses and the potential impairment of the assets to be transferred. The IPSASB noted that when a decision has been made to transfer a non-financial asset in the context of a transfer expense transaction, the asset is no longer held for the purposes of generating a commercial return and becomes a non-cash-generating asset for impairment purposes. Before the asset is transferred, the entity should consider if the decision to transfer the asset results in a significant change in use, which is an indicator to consider impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*. The IPSASB also noted that this separate consideration of impairment is not applicable to financial assets, as IPSAS 41 requires such assets to be assessed for impairment continuously. These decisions have been reflected in application guidance, as they relate to the application of existing IPSAS rather than new principles.
- BC38. The IPSASB noted the revised general accounting model for transfer expenses arising from transactions with binding arrangements fully addresses transactions involving capital transfers. Therefore, the IPSASB decided that capital transfers should be addressed in application guidance and implementation guidance, and that no separate principles are required to be developed.

## Implementation Guidance

*This guidance accompanies, but is not part of, [draft] IPSAS [X].*

### Section A: Definitions

#### A.1 Capital Transfers

##### **When is a transfer of a physical asset a ‘capital transfer’?**

It depends on what the binding arrangement requires the transfer recipient to do with the asset.

A transfer of a physical asset is a ‘capital transfer’ if the entity transferred the physical asset within a binding arrangement and the transfer recipient is required by the binding arrangement to use the physical asset received to acquire or construct another non-financial asset that it will subsequently control. A transfer of a physical asset which only has a requirement to be used or operated in specific manner would not meet the definition of a ‘capital transfer’.

### Section B: Identifying the Transfer Expense Transaction

#### B.1 Identify Whether a Binding Arrangement Exists

##### **Does the way in which an entity transacts with others impact the accounting?**

Yes. Public sector entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the involved parties, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of transfer expenses to ensure fair presentation of such transactions.

Correctly identifying whether or not the transfer expense transaction arises from a binding arrangement is integral to correctly applying this [draft] Standard. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its transfer expense transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 10-16).

#### B.2 Enforceability

##### **What should an entity consider in assessing enforceability?**

Determining whether an arrangement, and each party’s rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (enforceable rights and obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which ~~should~~shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability



to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or fulfilling those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

- (a) The substance, rather than the form, of the arrangement;
- (b) Terms that are written, oral, or implied by an entity's customary practices;
- (c) Whether it is legally binding through legal ~~means~~ (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence); or ~~compliance through~~ equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);
- (d) Consequences of not fulfilling the obligations in the arrangement;
- (e) The specific jurisdiction, sector, and operating environment; and
- (f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of their jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG15-AG25 provide further guidance on assessing enforceability through legal or equivalent means.

### *B.3 Enforceability: Transfers Subject to Appropriations*

#### **Can an appropriation give rise to a transfer expense?**

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or similar authority.

An appropriation itself typically does not result in an accounting event or transaction. However, like other transfers that ~~do not~~ arise from a binding arrangement, there may be situations when an appropriation, in combination with external announcements or other communications, may create a valid expectation with other parties that the entity which approved the allocation of funds is accepting and discharging certain responsibilities. In these situations, IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, is applicable, and a provision is recognized if a legal or constructive obligation exists. If an appropriation does not give rise to a legal or constructive obligation, the entity accounts for the subsequent transfer by applying the principles in this [draft] Standard.

#### **How should an entity consider the impact of appropriations on its transfer expense transactions arising from binding arrangements?**

Appropriations on their own do not prove, nor refute, the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of their specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred to a transfer recipient by an entity are subject to an appropriation process being completed by an unrelated third-party in accordance with the laws and regulations in the jurisdiction. The entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity.

~~An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of their specific jurisdiction and the unique terms and conditions of each arrangement.~~

If the limitation (that the resources to be transferred are subject to ~~an the~~ appropriation) has substance, the arrangement is not enforceable and thus not a binding arrangement, as the transfer recipient cannot establish an enforceable right to those resources before the appropriation process has been completed.

In other circumstances, a transfer that is subjected to appropriations could still be enforceable if the arrangement is set up in a way that the mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity, prior to the appropriation process being completed.

In some jurisdictions, the authorization for a transfer of resources may go through a ~~multiple~~ step process. For example:

- (a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of an entity;
- (b) The exercise of that authority has occurred. In essence, a decision by the approved enabling authority clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the entity has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and
- (c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority, together with the exercise of that authority, may be sufficient for an entity to conclude that the transfer recipient has an enforceable right to those resources in the arrangement that enables the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose ~~consequences-non-compliance requirements~~ on the entity, prior to the completion of the appropriation process. In such circumstances, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when an entity has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

#### *B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement*

**Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?**

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 7. If it does meet the definition, the entity accounts for the binding arrangement in accordance with paragraphs 21-43.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

- (a) Changes in the legal framework impact the ability of the entity, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and
- (b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with IPSAS 19 or IPSAS 41.

## **Section C: Transfer Expenses from Transactions without Binding Arrangements**

### *C.1 Accounting for Transfers Arising from Transactions without Binding Arrangements*

**When the entity transfers resources in a transaction without binding arrangements, is it possible for the transfer to result in the recognition of a transfer right asset?**

No. Because a transfer right asset is defined as an asset recognized for the existence of one or more transfer rights arising from a binding arrangement, it will not be possible to recognize a transfer right asset without a binding arrangement.

However, it is possible for an entity to have an one-way enforceable right over transferred assets (for example, the right to direct the recipient on how to use resources) without an enforceable obligation as the result of a non-binding arrangement. In such cases, the transfer would result in the recognition of an asset which would be derecognized when or as the enforceable right is extinguished.

## **Section D: Transfer Expenses from Transactions with Binding Arrangements**

### *D.1 Identifying Transfer Rights in a Binding Arrangement*

**How does an entity determine the individual transfer rights in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?**

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional judgment as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

An entity should first identify all the rights to require the transfer recipient to satisfy its compliance obligation(s) in a manner as specified in the binding arrangement. In the context of a binding arrangement for transfer expenses, rights include the ability to require the transfer recipient to use resources for a good or service internally or to transfer a good, service, or other asset (which could include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

An entity then considers each identified right to determine if a right is itself a distinct transfer right, or whether it should be grouped with other rights to be a single distinct transfer right. Thus, a transfer right is a unit of account that represents a distinct right or group of rights to which recognition and measurement concepts are applied (paragraphs 22-43).

A right in a binding arrangement is distinct if it can be enforced separately from other rights in the arrangement. An entity ~~can~~ considers the following factors when assessing whether a right is distinct:

- (a) The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;
- (b) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and
- (c) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

Any distinct right, or distinct group of rights, identified by the entity through this analysis would be an individual transfer right.

## **Section E: Recognition of Transfer Expenses from Transactions with Binding Arrangements**

### *E.1 Derecognition of a Transfer Right Asset*

**An entity has determined it has one transfer right which is extinguished over time. How does the entity determine a measure of progress that best depicts the extinguishment of its transfer right?**

In general, a transfer right is extinguished (and ~~so~~ the related transfer right asset is expensed) when or as an entity can no longer require the transfer recipient to act in accordance with the binding arrangement. This often occurs when or as the transfer recipient has satisfied its obligations in the arrangement, so the appropriate method of measuring progress depends on the specific nature of the entity's transfer rights and the specific terms of the binding arrangement. In situations where the binding arrangement consists of one transfer right to have the transfer recipient satisfy various interrelated activities, the transfer right may be partially extinguished as individual activities are being performed by the transfer recipient. Common considerations which could inform when a transfer right has been partially extinguished include:

- (a) The transfer recipient has performed activities specified in the binding arrangement;

- (b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and
- (c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There could be situations where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, ~~the~~ some binding arrangements may specify that entity will need to consider whether the extinguishment of an entity's ~~the~~ transfer right ~~asset~~ depends on the satisfaction of the ultimate transfer recipient's compliance obligations ~~as specified in the binding arrangement~~. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from one entity to the next. An entity will need to consider the terms of the binding arrangements and any relevant facts and circumstance to determine when to derecognize its transfer right assets.

In other cases, a transfer right may be extinguished due to the transfer recipient's inability or unwillingness to satisfy its obligations in the binding arrangement. When this occurs, the entity considers if the terms of the binding arrangement, along with the legal framework in the relevant jurisdiction, give the entity the unconditional right to receive cash (e.g., a refund of the transferred resources). Such an unconditional right results in the derecognition of the transfer right asset and the recognition of a financial asset (see paragraph 26). If the binding arrangement and relevant legal framework do not support the recognition of a financial asset, the entity then considers if the transfer right asset has been impaired (see paragraph 43). This topic is further illustrated in Illustrative Example 8 (see paragraphs IE42-IE48).

## Section F: Measurement of Transfer Expenses from Transactions with Binding Arrangements

### F.1 Allocating the Transfer Consideration to Transfer Rights

#### **How should a public sector entity determine the suitable method for estimating the stand-alone consideration of a transfer right?**

Generally, an entity would want to explicitly specify in a binding arrangement the amount of resources it is willing to transfer for each transfer right (i.e., the stand-alone consideration is typically specified for each transfer right). In situations where the stand-alone consideration is not explicitly stated, the Standard requires an entity to ~~determining~~ the best estimate of the amounts that it an entity ~~intend~~see to compensate the transfer recipient for satisfying its obligation when negotiating the binding arrangement.

The most suitable method to estimate the stand-alone consideration will depend on the quality and type of information that is available to the entity. For example, the individuals negotiating a binding arrangement may have contemporaneous records detailing how they estimated the stand-alone consideration for specific transfer rights included in the binding arrangement. Other entities may have detailed internal budget information documenting the resources it is willing to pay for each specific transfer right. In other cases, the individuals negotiating a binding arrangement may be using a standard pricing list from the transfer recipient to estimate the total resources to be transferred. In

this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each transfer right.

## **Section G: Multi-Year Arrangements**

### *G.1 Accounting for Multi-Year Arrangements*

#### **Are different principles required to account for, and recognize transfer expenses from, multi-year arrangements?**

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements span a longer term, the application of accounting principles is consistent with the accounting for other transfer expense transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in paragraphs 18-20 for transfer expenses arising without binding arrangements, or paragraphs 21-43 for transfer expenses arising from transactions with binding arrangements. The entity shall consider the recognition of a transfer right asset and/or transfer expense independently from the timing of when resources are transferred.

## Illustrative Examples

*These examples accompany, but are not part of, [draft] IPSAS [X].*

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in [draft] IPSAS [X] to particular aspects of a transfer expense on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X].

### Scope

IE2. Examples 1-2 illustrate the requirements in paragraphs 3-5 of [draft] IPSAS [X] on the determination of whether a transaction is within the scope of [draft] IPSAS [X].

#### *Example 1: Transfer Where the Other Party Provides Goods and Services*

IE3. An international organization enters a binding arrangement to purchase a vehicle from a dealer for CU30,000. Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

##### Case A – Vehicle is Provided to the International Organization

IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the international organization.

IE5. The binding arrangement does not give rise to a transfer expense of the international organization, as the international organization directly receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X]. The international organization applies IPSAS 17, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs and maintenance.

##### Case B – Vehicle is Provided to a National Government

IE6. In this separate scenario, the binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a national government (a third-party beneficiary) rather than to the international organization.

IE7. The binding arrangement gives rise to a transfer expense of the international organization, as the international organization transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the national government, a third-party beneficiary.) The international organization (the transfer provider) applies paragraphs 21-43 of [draft] IPSAS [X] in accounting for the transfer, as it arose from a binding arrangement.

### *Example 2: Research Grants*

IE8. A national government enters a binding arrangement with a university whereby the national government will provide the university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

#### Case A—National Government Controls Research

IE9. The binding arrangement includes a requirement that the university will transfer the results of the research to the national government, including rights to any intellectual property and/or patents created.

IE10. The binding arrangement does not give rise to a transfer expense of the national government, as the national government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X]. The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

#### Case B—University Controls Research

IE11. The binding arrangement does not require the university to transfer the results of the research to the national government. Rather, the university retains control of the research, including rights to any intellectual property and/or patents created.

IE12. The binding arrangement gives rise to a transfer expense of the national government, as the national government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The national government (the transfer provider) applies paragraphs 21-43 of [draft] IPSAS [X] in accounting for the transaction, as it arose from a binding arrangement.

### **Binding Arrangements and Enforceability**

IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10-16 of [draft] IPSAS [X].

### *Example 3: Identifying Whether a Binding Arrangement Exists*

IE14. A local government is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake these programs without assistance. The national government decides to transfer CU10 million of surplus funds to the local government to assist with its social programs. The details of the transfer are documented in a “funding agreement.” However, the agreement only results in an obligation for the national government to transfer funds and do not provide the national government with any rights to compel the local government to act in a specific manner.

IE15. Since the agreement does not confer both rights and obligations to the national government, it is not a binding arrangement. The national government shall apply the accounting principles in paragraphs 18-20 to account for the transfer.



*Example 4: Agreement for Transfer Subject to Completion of the Appropriations Process*

- IE16. A national government has a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into an arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution. CU10 million is to be transferred in 20X2, and the remaining CU5 million to be transferred in 20X3. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.
- IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million in 20X2 on October 31, 20X2 and immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in 20X2 but will be considered in the following year as part of the appropriation process for 20X3.
- IE18. In determining the effect of the appropriation on the arrangement, the national government considers substance over form, in accordance with paragraphs 10-16 and AG11-AG25.

Case A – Requirement to Complete the Appropriation Process has Substance

- IE19. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires the national government to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.
- IE20. The national government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in 20X2 and CU5 million in 20X3) until the appropriation process is completed. Consequently, in 20X2, the national government only recognizes an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations to date. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the national government would instead recognize a transfer right asset of CU10 million.
- IE21. On March 31, 20X3, parliament completes the appropriation process for the remaining CU5 million. At this date, the national government applies paragraphs 21-26 of [draft] IPSAS [X] to assess the accounting implications for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

- IE22. In this scenario, the reduction of air pollution is a priority of both the national and local governments, and there is legislation in place which requires the national government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the national government is required by law to complete the appropriation for the CU15 million transfer.
- IE23. The national government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the national government is required by law to complete the appropriation for the CU15 million transfer. Upon

execution of the binding arrangement, the national government applies paragraphs 21-26 of [draft] IPSAS [X] in determining when to recognize a transfer right asset or a transfer expense.

### **Transfer Expenses from Transactions with Binding Arrangements**

IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of [draft] IPSAS [X].

#### *Example 5: Determining Whether Goods or Services are Distinct*

##### Case A – Goods or Services are not Distinct

IE25. The Department of Health (the Department) enters a binding arrangement with the Department of Public Works (Public Works) for Public Works to build a hospital for the Provincial Government, a third-party beneficiary. Under the terms of the binding arrangement, Public Works has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

IE26. To determine if the binding arrangement has more than one transfer right, the Department applies paragraphs 21, AG31-AG34 and considers the factors discussed in Implementation Guidance D.1 of [draft] IPSAS [X] to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

IE27. Without the context of the overall arrangement, the rights to have Public Works perform the individual services such as project management, design, procurement, and construction, could be viewed as distinct rights that can be enforced separately. However, within the context of the binding arrangement, these rights are all highly interdependent (e.g., the construction of the structure can only be performed after completion of the design, engineering, site clearance foundation, and procurement activities) and highly interrelated (i.e., the individual services together result in the building of a hospital.)

IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of [draft] IPSAS [X], the Department aggregates these related rights into a single transfer right.

##### Case B – Goods or Services are Distinct

IE29. A regional government office (Regional Government) enters into a binding arrangement with an IT services agency (Agency) for the Agency to provide the following to a public sector university in the region (the University, the third-party beneficiary) over a two-year period:

- (a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programs);
- (b) Website-related services;
- (c) Unspecified software updates for security purposes; and
- (d) Technical support (online and telephone) to the University's faculty and staff.

IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-

related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.

- IE31. The Regional Government assesses their rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of [draft] IPSAS [X]. In making this assessment, the Regional Government applies the guidance in paragraphs AG31-AG34 of [draft] IPSAS [X].
- IE32. The Regional Governments observes that:
- (a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;
  - (b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the license and services can be separately enforced; and
  - (c) The goods or services are neither highly interdependent nor highly interrelated. The Regional Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.
- IE33. The Regional Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralize the University's purchasing process and potentially negotiate a discount by bundling the license with services.
- IE34. On the basis of the above assessment, the Regional Government identifies four transfer rights in the binding arrangement for the following goods or services:
- (a) The productivity software;
  - (b) Website-related services;
  - (c) Security updates; and
  - (d) Technical support.

### **Recognition of Transfer Expenses**

- IE35. Examples 6-8 illustrate the requirements in paragraphs 22-25 on the overall accounting model for transfer expenses from transactions with binding arrangements:
- (a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;
  - (b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and

- (c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of [draft] IPSAS [X].

*Example 6: Recognition of a Transfer Right Asset and its Subsequent Derecognition*

- IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a regional government office (the Regional Government) entered into a binding arrangement with an IT agency (the Agency) to provide certain goods and services to a university in the region (the University). In Examples 5 and 10, the Regional Government determined that its transfer rights in the binding arrangement and their allocation of transfer consideration are as follows:
- (a) The productivity software for CU6 million;
  - (b) Website-related services for CU2 million;
  - (c) Security updates for CU3 million; and
  - (d) Technical support for CU1 million.
- IE37. The binding arrangement specifies that the transfer of the software occurs and the service period begins upon payment of the entire CU12 million by the Regional Government (i.e., the Regional Government pays upfront). Upon payment of the CU12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.
- IE38. The Regional Government recognizes the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognized based on the nature of each transfer right:
- (a) Productivity software – The Regional Government observes that Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software license was extinguished once the software was provided to the University, and CU6 million of the transfer right asset should be expensed at that time;
  - (b) Website-related services – The Regional Government observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognize CU2 million of the transfer right asset while recognizing a transfer expense over time during the two-year period (e.g., amortizing CU83,333 into expense each month over the two-year period);
  - (c) Security updates, and technical support services –The Regional Government’s remaining transfer rights relate to services that are performed on an as needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognize the CU4 million while recognizing a transfer expense over time during the two-year period. (e.g., amortizing CU166,667 into expense each month over the two-year period).

**Example 7: Recognition of a Transfer Obligation Liability**

IE39. A municipal government (the Government) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide copies of an accounting textbook to the public secondary schools in the city (the Schools, the third-party beneficiaries). Because the number of textbooks required by each school is based on the number of students enrolled in the accounting course, the binding arrangement only specifies that the Government will pay the Publisher CU30 per textbook, and the number of textbooks to be provided will be based on enrollment numbers which will be finalized a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the Government will provide the enrollment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the textbooks to the Schools at least two weeks before the start of the school year, and the Government will pay the remaining consideration for the textbooks provided within 30 days after the Schools have received the shipments.

IE41. Upon finalization of student enrollment, the enrollment numbers were provided to the Publisher, and 19,800 textbooks were shipped to the Schools. To account for this binding arrangement, the Government applies paragraphs 22-25 of [draft] IPSAS [X]:

(a) Upon entering the binding arrangement, no accounting occurs as neither party have started to satisfy their obligations in the arrangement.

(b) A month before the school year begins, the Government provides the enrollment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the Government recognizes a transfer right asset of CU59,400 (CU30 × 19,800 books × 10%):

Transfer right asset	CU59,400	
Cash		CU59,400

(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the textbooks to the Schools, and the Government’s right to have the textbooks delivered has been extinguished. The Government derecognizes the transfer right asset of CU59,400 and records the amount as a transfer expense. In addition, the Government also recognizes a transfer obligation liability and a transfer expense for the unpaid consideration of CU534,600 (CU30 × 19,800 books – CU59,400 deposit) based on the terms of the binding arrangement:<sup>4</sup>

Transfer expense	CU594,000	
Transfer right asset		CU59,400
Transfer obligation liability		CU534,600

**Example 8: Derecognition of a Transfer Right Asset Due to Non-Performance**

IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a corporation that operates a number of private clinics in a region (the Corporation). Under the terms of the binding

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<sup>4</sup> It should be noted that [draft] IPSAS [X] does not prohibit the Government from using alternative descriptions in its financial statements for the terms ‘transfer right asset’, ‘transfer obligation liability’, or ‘transfer expense’.

arrangement, the Ministry will provide an upfront payment of CU1 million to the Corporation for the Corporation to operate a vaccination program and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Corporation is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

- IE43. The binding arrangement specifies that if the Corporation stops administering the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Corporation is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Corporation has spent the funds on acquiring the vaccinations. (e.g., if the Corporation purchases 10,000 doses immediately upon receipt of the CU1 million, then only administers 5,000 doses and stops the vaccination program, it will be required to return CU500,000 to the Ministry even though the entire CU1 million has been spent.) The binding arrangement also specifies that the Corporation is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as war, terrorist attacks, or natural disasters.

#### Case A – The Corporation Decides to Stop the Vaccination Program

- IE44. Upon paying the CU1 million, the Ministry recognizes a transfer right asset for the right to have the Corporation's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Corporation purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Corporation observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Corporation makes a business decision and informs the Ministry that it will stop administering the vaccines.
- IE45. For the vaccines that have been administered, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies paragraph 26 of [draft] IPSAS [X] and:
- (a) Derecognize the transfer right asset of CU950,000; and
  - (b) Recognize a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Corporation has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of IPSAS 41, *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in IPSAS 41 and is no longer within the scope of [draft] IPSAS [X].

#### Case B – A Force Majeure Event Prevented the Administration of all 10,000 Doses

- IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognizes the amount as a transfer right asset. In this scenario, the Corporation also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Corporation informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination program and administer the remaining 9,000 within 12 months.
- IE47. Like Case A, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed

in the earthquake. In addition, the Corporation has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

- IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of [draft] IPSAS [X] and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Corporation's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with IPSAS 21 and reduces its transfer right asset to CU900,000.

### **Modifications to a Binding Arrangement**

- IE49. Example 9 illustrates the requirements in paragraphs 27-29 of [draft] IPSAS [X] on binding arrangement modifications. In addition, Case C of this example illustrates the requirements to estimate variable consideration in paragraphs 35-37 of [draft] IPSAS [X], as well as the requirements on changes in transfer consideration in paragraphs 40-42. Cases A, B, and C all build on the fact pattern outlined in paragraphs IE50-IE51 but are each independent from each other.

#### *Example 9: Modifications to A Construction Arrangement*

- IE50. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million. In accordance with paragraph 25 of [draft] IPSAS [X] and based on the terms of the binding arrangement, Housing accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.
- IE51. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, Housing assesses that Public Works has completed 60% of building's construction based on the surveyor's report. Consequently, the expenses recognized by Housing for the first year are CU600,000 (transfer consideration of CU1 million x 60%).

#### **Case A – Modification Resulting in a Cumulative Catch-Up Adjustment to Expenses**

- IE52. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the transfer consideration increases by CU150,000 and the total transfer consideration after the modification is CU1,150,000. In assessing the modification to the binding arrangement, Housing evaluates paragraph 28(a) of [draft] IPSAS [X] and concludes that the upcoming construction based on the revised floor plan does not result in additional transfer rights, as the modification did not result in the acceptance of additional distinct compliance obligations by Public Works or an increase in Public Works' existing compliance obligations; that is, the binding arrangement remains a single transfer right.
- IE53. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement in accordance with paragraph 29 of [draft] IPSAS [X]. Based on an updated quantity surveyor's report, Housing updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result,

Housing recognizes additional expenses of CU9,500 [(53% complete × CU1,150,000 modified transaction consideration) – CU600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

#### Case B – Modification Resulting in a New Binding Arrangement

- IE54. Continuing with the facts presented in paragraphs IE50-IE51, in the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of CU100,000 for the construction of a parking lot to be located next to the residential building.
- IE55. Housing determines that this modification results in a separate binding arrangement because:
- (a) The construction of the parking lot is a new transfer right, as Housing can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right as noted in paragraph AG32 of [draft] IPSAS [X]; and
  - (b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Public Works for the construction of the parking lot.
- IE56. As a result, Housing continues to account for the transfer relating to the construction of the residential building in the manner described in paragraphs IE50-IE51. The CU100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

#### Case C – Change in Transfer Consideration Due to the Resolution of Uncertain Events

- IE57. Modifying the facts presented in paragraphs IE50-IE51, at the inception of the binding arrangement, Housing also agreed to pay a bonus of CU200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.
- IE58. Completion of the building is highly susceptible to factors outside the Public Works' influence, including weather conditions and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements. Based on these factors, Housing excluded the CU200,000 bonus from the transfer consideration at the inception of the binding arrangement.
- IE59. At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely. As a result, Housing concludes that payment of the bonus is now probable and adjusted the transfer consideration to CU1,200,000.
- IE60. The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. Housing accounts for the probable payment of the bonus by applying paragraph 41 of [draft] IPSAS [X] and allocates the CU200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, Housing expenses an additional CU120,000 for the probable bonus payment as a cumulative catch-up adjustment ((CU1.2 million × 60%) – CU600,000 expense recognized to date).



## Measurement

IE61. Example 10 expands upon the fact pattern from Case B of Example 5 to illustrate the allocation of transfer consideration to individual transfer rights.

### *Example 10: Allocation of Transfer Consideration*

IE62. Continuing the fact pattern from Case B of Example 5, the regional government office (Regional Government) has concluded that it has four distinct transfer rights in its binding arrangement with the IT agency (Agency). As noted in paragraph IE34, these transfer rights relate to the providing the University with productivity software, website-related services, security updates, and technical support services over a two-year period.

IE63. When the Regional Government began negotiations with the Agency, it observed that the Agency's published prices would have been as follows had the software and services been purchased separately for the two-year period: CU6 million for the software, CU4 million for the website-related services, CU3 million for the security updates, and CU2 million for technical support. During negotiations, the Regional Government and the Agency used these published prices as a starting point then agree to reduce the total consideration for all four deliverables from CU15 million to CU12 million.

### Case A – Binding Arrangement Specifies Each Transfer Right's Stand-Alone Consideration

IE64. In this scenario, the binding arrangement specifies that the CU3 million reduction in transfer consideration resulted from a CU2 million discount for website-related services and a CU1 million discount for technical support.

IE65. Applying paragraph AG50, the Regional Government uses the amount of stand-alone consideration and negotiated discount specified in the binding arrangement for each transfer right and allocates the transfer consideration as follows:

- (a) Productivity software: CU6 million;
- (b) Website-related services: CU2 million;
- (c) Security updates: CU3 million; and
- (d) Technical support: CU1 million.

### Case B – Binding Arrangement Only Specifies the Total Transfer Consideration

IE66. In this scenario, the Regional Government and the Agency only agreed to the overall CU3 million discount for the entire bundle of the software and the various services, and the binding arrangement does not specify how the CU3 million is to be allocated.

IE67. Applying paragraph AG51, the Regional Government estimates the consideration allocated to each transfer right based on the amounts that were intended to compensate the Agency for the software and the services. As the Agency's published prices were used as the starting point for negotiations, the Regional Government noted that these prices are appropriate proxies for the stand-alone consideration of the software and services. Therefore, one reasonable allocation approach is to proportionately allocate the CU12 million based on each deliverable's published prices.

- IE68. Using this approach, the Regional Government allocates the transfer consideration as follows:
- (a) Productivity software: CU4.8 million (CU6 million ÷ CU15 million × CU12 million);
  - (b) Website-related services: CU3.2 million (CU4 million ÷ CU15 million × CU12 million);
  - (c) Security updates: CU2.4 million (CU3 million ÷ CU15 million × CU12 million); and
  - (d) Technical support: CU1.6 million (CU2 million ÷ CU15 million × CU12 million).

### **Application of Principles to Specific Transactions**

- IE69. Example 11 illustrates the application of paragraphs AG53-AG55 of [draft] IPSAS [X] to capital transfers.

#### *Example 11: Capital Transfers*

##### Case A – Transfer Only Relates to the Construction of an Asset

- IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:
- (a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;
  - (b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;
  - (c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:
    - (i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.) along with the budgeted costs of these activities;
    - (ii) Provide detailed progress reports at each significant stage of construction; and
  - (d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.
- IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.
- IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there was no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognizes a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.
- IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognized and expensed throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE74. Building on Case A, the binding arrangement now states that:

- (a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;
- (b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;
- (c) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and
- (d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from [draft] IPSAS [X], Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.

IE76. For the transfer right relating to the construction of the building, as in Case A, Entity P recognizes a transfer right asset of CU22 upon the transfer of funds. Entity P then derecognizes the CU22 million (and recognizes the amounts as transfer expenses) over the construction period based on the construction progress as determined by information reported by Entity R.

IE77. For the transfer right relating to the operation of the building as a library, Entity P has determined that this transfer right is extinguished as the building is being operated by Entity R as a library during the 10-year period. Therefore, Entity P recognizes the entire CU10 million as a transfer right asset upon payment. After construction has been completed, as Entity R operates the building as a public library, Entity P derecognizes CU1 million of the transfer right asset per year over the 10-year period and recognizes the amount as a transfer expense.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE78. In this scenario, the binding arrangement includes all the terms from Case B, with the addition of the following:

- (a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty to Entity P;

- (b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10<sup>th</sup> year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.
- IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will record the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.
- IE80. The additional CU5 million penalty is not recognized by Entity P because its receipt is contingent on Entity R ceasing to operate the building as an asset. Such a contingent asset is not recognized in accordance with IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

- IE81. The following scenario is independent from Cases A-C and illustrates the accounting for a transfer without a capital transfer component.
- IE82. In this scenario:
- (a) Entity R already owns the building;
  - (b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement;
  - (c) Throughout the 10-year period, Entity R is required to provide evidence to Entity R that the building has been operated as a public library; and
  - (d) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.
- IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a library over a 10-year period. Upon initial payment, Entity P recognizes the CU10 million as a transfer right asset.
- IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognizes the transfer right asset evenly over the 10-year period and recognizes a transfer expense of CU1 million per year.

### **Comparison with GFS**

In developing IPSAS [X], *Transfer Expenses*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS [X] distinguishes between transfer expenses arising from transactions with binding arrangements (including capital transfers) and transfer expenses from transactions without binding arrangements. GFS distinguishes grants as either current or capital grants.
- Under IPSAS [X], an entity recognizes a transfer expense when (or as) its enforceable right to have the transfer recipient satisfy their obligations is extinguished. Under GFS, the timing of expense recognition is based on the type of grants.

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