IPSASB International Public Sector Accounting Standards Board®

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| **Meeting:** | International Public Sector Accounting Standards Board | **Agenda Item 6** | For: |
| **Meeting Location:** | Washington, D.C., USA | | ☒ Approval<br>☐ Discussion<br>☐ Information |
| **Meeting Date:** | March 14—17, 2023 | | |

# TRANSFER EXPENSES

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| **Project summary** | The aim of the Transfer Expenses project is to develop a standard that provides recognition and measurement requirements applicable to providers of transfer expense transactions, except for social benefits. | |
| **Project staff lead** | • Edwin Ng, Principal | |
| **Drafting Group** | • Ian Carruthers, IPSASB Chair (Drafting Group Chair)<br>• Todd Beardsworth, IPSASB Member<br>• Claudia Beier, IPSASB Member<br>• Lynn Pamment, IPSASB Member<br>• Patricia Siqueira Varela, IPSASB Member<br>• Lindy Bodewig, South African National Treasury<br>• Johanna Clark, UNICEF<br>• Nicole Smith, European Commission | |
| ***Meeting objectives*** | ***Topic*** | ***Agenda Item*** |
| **Project management** | Transfer Expenses: Project Roadmap | 6.1.1 |
| | Instructions up to Previous Meeting | 6.1.2 |
| | Decisions up to Previous Meeting | 6.1.3 |
| **Decisions required at this meeting** | Approval of [draft] IPSAS 48, *Transfer Expenses* | 6.2.1 |
| | Considering the Need for Re-Exposure | 6.2.2 |
| **Other supporting items** | [Draft] IPSAS 48, *Transfer Expenses* (review information) | 6.3.1 |

*Prepared by:* Edwin Ng (February 2023)

**Agenda Item 6.1.1**

# TRANSFER EXPENSES: PROJECT ROADMAP

| Meeting | Completed Actions or Discussions / Planned Actions or Discussions: |
|---|---|
| March 2015 | 1. Approve Project Brief |
| June 2016 | 1. Discussion of the performance obligation approach with the Consultative Advisory Group<br>2. Discussion of IPSAS 23 Implementation Issues with Consultative Advisory Group |
| June 2017 | 1. Approve Consultation Paper |
| March 2018 | 1. Review of responses – PSPOA<br>2. Review of responses – subsequent measurement of non-contractual payables |
| June 2018 | 1. Discussion of use of PSPOA for non-exchange expenses |
| September 2018 | 1. Discussion of use of PSPOA for non-exchange expenses |
| March 2019 | 1. Initial discussion of objective and scope<br>2. Initial discussion of definitions<br>3. Discussion of PSPOA<br>4. Initial discussion of presentation<br>5. Initial discussion of effective date and transition requirements<br>6. Initial review of draft ED |
| June 2019 | 1. Discussion of scope and definitions<br>2. Discussion of subsidies and premiums<br>3. Discussion of additional material to be included in the ED<br>4. Discussion of examples to be included in the ED |
| September 2019 | 1. Disclosures – discussion of issues<br>2. Review of initial draft of ED |
| December 2019 | 1. Review of draft ED final amendments<br>2. Review of examples – exception basis only<br>3. Approval of ED |
| March 2020 to September 2020 | 1. Document Out for Comment |
| December 2020 to April 2021 | 1. Review Responses<br>2. Discuss Issues |
| June 2021 to March 2022 | 1. Review Responses<br>2. Discuss Issues<br>3. Develop IPSAS |
| June 2022 to December 2022 | 1. Review Responses<br>2. Discuss Issues<br>3. Develop IPSAS |
| February 2023 | 1. Develop IPSAS |
| March 2023 | 1. Approve IPSAS |

# Agenda Item 6.1.2

## INSTRUCTIONS UP TO PREVIOUS MEETING

| Meeting | Instruction | Actioned |
|---|---|---|
| February 2023 | 1. Update the recommended effective date of IPSAS 48, *Transfer Expenses*, to January 1, 2026. | 1. See Agenda Item 6.2.1. |
| September 2022 | 1. Consult with the other IFAC standard setting boards to learn from their experience on the re-exposure of a near-final pronouncement. | 1. See Agenda Item 6.2.2. |
| December 2019 | 1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 72, *Transfer Expenses.* | 1. See Exposure Draft (ED) 72. |

# DECISIONS UP TO PREVIOUS MEETING

| Meeting | Decision | BC Reference |
|---|---|---|
| February 2023 | 1. Subject to editorial comments, the proposed Illustrative Examples and Amendments to Other IPSAS should be incorporated into [draft] IPSAS[X], *Transfer Expenses.* | 1. N/A – no BC is required for this process decision. |
| December 2022 | 1. Subject to instructions regarding capital transfers, the lists of proposed illustrative examples for the draft Transfer Expenses IPSAS are appropriate. | 1. BC9(f) |
| December 2022 | 2. The proposed approach to developing the revised Amendments to Other IPSAS for the draft Transfer Expenses IPSAS was appropriate. | 2. N/A – no BC is required for this process decision. See Agenda Item 2.2.3. |
| December 2022 | 3. Subject to proposed drafting changes, the core text, application guidance, bases for conclusions, and implementation guidance sections in the draft Transfer Expenses IPSAS were appropriate for inclusion in the final IPSAS. | 3. N/A – no BC necessary. |
| September 2022 | 1. Subject to drafting instructions, the signposting to the presentation and disclosure requirements in IPSAS 1, IPSAS 19, IPSAS 28, and IPSAS 30, as well as the requirement to disclose the significant judgements made regarding the recognition of a transfer right asset, is appropriate. | 1. BC31 in [draft] IPSAS [X], *Transfer Expenses* (Agenda Item 2.3.2). |
| September 2022 | 2. The disclosure of a reconciliation between the opening and ending balance of a transfer right asset should be removed. | 2. BC32 |
| September 2022 | 3. Subject to drafting instructions, the application of the presentation and disclosure requirements for expenses in IPSAS 1 should be applied to transfer expenses. | 3. BC31(a) |
| September 2022 | 4. Subject to drafting instructions, the addition of the terms 'transfer consideration' and 'stand-alone consideration' is appropriate. | 4. BC17 |
| September 2022 | 5. Referring to existing guidance in IPSAS 19 for variable consideration from a transfer provider's perspective is appropriate. | 5. BC30(b) |
| September 2022 | 6. Allocating the transfer consideration to individual transfer rights based on the amounts stated in a binding arrangement, or if not explicitly stated, the amounts the transfer provider intended to compensate the transfer recipient for fulfilling each of its obligations in the binding arrangement is appropriate. | 6. BC30(d) |
| September 2022 | 7. The draft Transfer Expenses IPSAS can be applied on either a full retrospective or prospective basis. | 7. BC34-BC36 |
| September 2022 | 8. Subject to drafting instructions, the revised core text and application guidance reviewed during the page-by-page review should be incorporated into the [draft] IPSAS, *Transfer Expenses*. | 8. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9. |

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| September 2022 | 9. Subject to drafting instructions, the proposed implementation guidance topics are appropriate. | 9. N/A – The DG decided no BC is required for this process decision. The DG is a sub-group for the Board. |
| June 2022 | 1. Subject to drafting instructions, the key transfer expense accounting principle is determining whether the entity controls a transfer right. | 1. BC20 |
| June 2022 | 2. Subject to drafting instructions, a liability should be recognized prior to the transfer if:<br>(a) In transactions arising from a binding arrangement, the transfer recipient fulfilled its compliance obligations; or<br>(b) In transactions not involving a binding arrangement, the facts and circumstances results in: A constructive obligation as described in IPSAS 19 or a legal obligation which requires an outflow of resources. | 2. BC29 and BC26 |
| June 2022 | 3. Subject to instructions on drafting implementation guidance, appropriations are addressed by the general accounting model for transfer expenses and no additional authoritative guidance is needed. | 3. BC23(h) |
| June 2022 | 4. Onerous contracts are not applicable to transfer expenses. | 4. BC12 |
| March 2022 | 1. An entity should consider whether changes in external factors indicated a change in the substance of its binding arrangement, or collectively with internal factors (such as intention to enforce) inform subsequent measurement considerations. | 1. BC23(d) |
| December 2021 | 1. Non-cash resources transferred by a transfer provider should be measured at their carrying amount in line with the requirements in other IPSAS. | 1. BC24 and BC30(a) |
| September 2021 | 1. Where the transfer provider in a binding arrangement transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset. | 1. BC27 |
| September 2021 | 2. As an asset may exist where the transfer provider transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the accounting model adopted in ED 72 for transfer expenses where the transfer recipient has a present obligation should not be retained. | 2. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9. |
| September 2021 | 3. Revisions, proposed in the Appendices, to address constituent concerns should be incorporated into the draft IPSAS based on ED 72 (except for Recommendation 3 on binding arrangements and onerous contracts). | 3. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9. |
| September 2021 | 4. The distinction between transfer expenses with performance obligations and transfer expenses without | 4. The decisions to move away from ED 72 and |

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| | performance obligations previously proposed in ED 72 should be removed, as it is not useful from a transfer provider perspective. | to revise the core text are explained in the background section in BC1-BC9. |
| September 2021 | 5. The detailed review of guidance in the draft pronouncements, based on Board decisions for the Revenue and Transfer Expenses projects, be delegated to the Drafting Group. | 5. N/A – The DG decided no BC is required for this process decision. The DG is a sub-group for the Board. |
| September 2021 | 6. The guidance in the draft IPSAS based on ED 71 and ED 72 be reordered to require the entity to consider up front whether the transaction arises without or with a binding arrangement. | 6. BC21 |
| June 2021 | 1. Incorporate the definition of a 'binding arrangement' (as decided above for Revenue) into the final Transfer Expenses standard to ensure the standards are conceptually consistent and freestanding. | 1. BC22 and BC23(a)-(b) |
| June 2021 | 2. Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue. | 2. BC23(c) |
| June 2021 | 3. Confirm that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement, and the guidance proposed in paragraph 21 should be added as Application Guidance. | 3. BC23(c) |
| June 2021 | 4. Confirm that the 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. | 4. BC23(d) |
| June 2021 | 5. Confirm that legal or equivalent means is consistent with 'legal obligation' as described in the Conceptual Framework Chapter 5 and is not 'non-legally binding obligation'. | 5. BC29 |
| June 2021 | 6. Revise the definition of a liability in the IPSASB's Conceptual Framework by replacing 'outflow of resources' with 'transfer of resources' as the revised wording clarifies (i.e., does not substantially change) the underlying concepts. | 6. Processed in the Conceptual Framework project and referenced in BC29. |
| April 2021 | 1. Address principle-related issues raised by constituents first, before considering other issues raised. | 1. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9. |
| April 2021 | 2. Revise the presentation of guidance in the transfer expense standard to better reflect the public sector. | 2. BC9(e) |

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| April 2021 | 3. Retain binding arrangement as a fundamental concept for transfer expense accounting. Principles related to binding arrangements should be consistent. Identification and assessment of a binding arrangement is from the perspective of the entity. | 3. BC9(d) and BC20-BC21 |
| April 2021 | 4. Confirm that, in a binding arrangement, each party will have at least one present obligation. | 4. BC23(e) |
| April 2021 | 5. Confirm that enforceability can be demonstrated by various mechanisms in transfer expense accounting, and all relevant factors should be considered in that analysis. | 5. BC23(b) |
| April 2021 | 6. Confirm that enforceability of a binding arrangement may give rise to an asset for the transfer provider when it is partially fulfilled. | 6. BC27 |
| April 2021 | 7. Be conceptually consistent with the present obligation principles developed for revenue and consider substance of the arrangement from the different perspectives (transfer provider vs. transfer recipient) in assessing whether to retain the distinction of performance obligations for transfer expense accounting. | 7. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9. |
| April 2021 | 8. Consider the implication of the IPSASB's decision on the treatment of "consideration not directly attributable to the transfer of distinct goods or services" at a later date, based on the decision to either retain or remove the distinction of transfer expenses with and without performance obligations. | 8. The decisions to move away from ED 72 and to revise the core text are explained in the background section in BC1-BC9. |
| April 2021 | 9. Incorporate executory contract accounting principles without explicitly referring to the term executory contracts. Drafting should refer to specific principles to account for binding arrangements. | 9. BC23(e) and BC23(g) |
| April 2021 | 10. Confirm, for transfer expenses, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations). | 10. BC23(f) |
| April 2021 | 11. Confirm an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is not completely fulfilled, the combined right and obligation constitute a single asset or liability. | 11. BC23(g) |
| December 2020 | 1. Address concerns over the nature and length of disclosures in all three EDs by taking a principles-based approach focusing on the nature of the transactions and their risks. | 1. BC31-BC33 |

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| December 2019 | 1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, *Transfer Expenses* | 1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, *Transfer Expenses* |

## Approval of IPSAS 48, *Transfer Expenses*

### Question

1. Does the IPSASB agree to vote to approve IPSAS 48, *Transfer Expenses*, and the proposed effective date of January 1, 2026?

### Recommendation

2. Staff recommend the IPSASB:

    (a) Vote to approve IPSAS 48 based on the IPSASB's Program and Technical Director assertion that due process has been followed effectively in its development; and

    (b) Select an effective date of January 1, 2026.

### Background

3. The IPSASB completed its detailed review of the full [draft] IPSAS 48 at its February 2023 check-in meeting. This paper summarizes the IPSASB's work in compliance with due process in developing [draft] IPSAS 48, walks through the next steps to facilitate approval, and asks the IPSASB to approve IPSAS 48.

4. Once the Board approves the new IPSAS, it will consider the need for re-exposure.[1] This paper should be considered in conjunction with Agenda Item 6.2.2, which assesses whether re-exposure is necessary.

### Analysis

*Due Process*

5. IPSAS 48 provides guidance for transfer expenses, which currently does not exist in IPSAS. The IPSASB has followed due process throughout this project (see full analysis in Appendix A). Key activities and final steps in due process are provided below.

6. The IPSASB released Exposure Draft (ED) 72, *Transfer Expenses*, in February 2020. The IPSASB received 65 comment letters, which were reviewed and analyzed by IPSASB staff.

7. Between December 2020 and February 2023, the IPSASB discussed and addressed issues raised by ED 72 respondents in its development of [draft] IPSAS 48, *Transfer Expenses.*

8. When the staff are satisfied a proposed final international standard is ready for approval, IPSASB's Due Process and Working Procedures sets out the necessary steps to facilitate its approval:

    (a) **Staff present the revised content of the exposed international standard to the IPSASB**;

    See Agenda Item 6.3.1.

    (b) **The IPSASB Program and Technical Director advises the IPSASB on whether due process has been followed effectively**;

[1] IPSASB Due Process requires the IPSASB to consider whether there has been a substantial change from the original exposure draft such that a vote on re-exposure is necessary. An affirmative vote by IPSASB in accordance with the IPSASB's Terms of Reference that re-exposure is required to issue a re-exposure draft. If the IPSASB votes to re-expose, the basis of its decisions is recorded in the minutes. The re-exposure would be accompanied with a summary memorandum (At-a-Glance document) that includes the rationale and sufficient information to understand the changes made as a result of the earlier exposure.

The IPSASB Program and Technical Director asserts that due process has been followed effectively in developing [draft] IPSAS 48.

(c) **The IPSASB confirms whether or not it is satisfied the due process has been followed effectively**;

The IPSASB Chair asks the IPSASB for confirmation on due process.

(d) **The IPSASB votes on the approval of IPSAS 48 in accordance with its Terms of Reference**;

Staff recommend the approval of IPSAS 48.

(e) **The IPSASB considers whether there has been a substantial change to the exposed document such that a vote on re-exposure is necessary**;

Based on its analysis in Agenda Item 6.2.2, staff conclude that while there are substantial changes that could require a vote on re-exposure by the IPSASB, the benefits of re-exposure do not justify the costs.

(f) **The IPSASB sets the effective date of the application of IPSAS 48**; and

Staff recommend the IPSASB set an effective date for IPSAS 48 of January 1, 2026, for the reasons provided in Appendix A.

(g) **The IPSASB issues Basis for Conclusions with respect to comments received on an exposure draft.**

Staff highlights that [draft] IPSAS 48 includes the Basis for Conclusions (Agenda Item 6.3.1).

**Decision Required**

9. Does the IPSASB agree with the staff recommendation?

## Appendix A – Detailed Due Process for Approval of IPSAS 48, *Transfer Expenses*

1. IPSAS 48, *Transfer Expenses*, provides guidance on transfer expenses, which currently does not exist in IPSAS. The IPSASB has followed due process throughout this project. As such, the detail of the final steps in due process are noted below.

2. IPSASB issued Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* in August 2017. The IPSASB received 38 comment letters, which were deliberated and considered in forming its views and development of the Exposure Drafts.

3. The IPSASB released Exposure Draft (ED) 72, *Transfer Expenses*, in February 2020. The IPSASB received 65 comment letters, which were reviewed and analyzed by IPSASB staff.

4. Between December 2020 and February 2023, the IPSASB discussed and addressed issues raised by ED 72 respondents in its development of [draft] IPSAS 48, *Transfer Expenses.*

5. When the staff are satisfied a proposed new final international standard is ready for approval, IPSASB's Due Process and Working Procedures sets out the necessary steps to facilitate its approval (bolded procedures require action by the IPSASB):

   **(a) Staff present the revised content of the exposed international standard to the IPSASB;**

   Agenda Item 6.3.1 includes all changes in mark-up from the version presented at the February 2023 check-in meeting. Changes since the ED reflect matters raised in comment letters to help constituents understand the principles and apply the Standard (IPSAS 48) in practice. While the accounting aim and outcome of the Standard is consistent with the ED, there were substantial changes to the principles in the Standard (see Agenda Item 6.2.2 for details).

   **(b) The IPSASB Program and Technical Director advises the IPSASB on whether due process has been followed effectively;**

   The IPSASB Program and Technical Director, asserts due process has been followed effectively, noting that:

   - ED 72 was issued for consultation;
   - Responses to the ED were received and made publicly available on the IPSASB website;
   - The IPSASB has deliberated significant matters raised in the comment letters at its meetings between December 2020 and February 2023, and decisions taken have been minuted;
   - The IPSASB also considered in September 2022 whether all issues raised by respondents to the ED have been addressed, and concluded that the all issues have been resolved in the development of [draft] IPSAS 48. In March 2023, the IPSASB will formally be asked to consider whether there are any issues raised by respondents, in addition to those summarized by staff, that it considers should be discussed by the IPSASB and agree there are none.

   **(c) The IPSASB confirms whether or not it is satisfied the due process has been followed effectively;**

   The IPSASB Chair asks the IPSASB for confirmation on due process.

**(d) The IPSASB votes on the approval of IPSAS 48, *Transfer* Expenses, in accordance with its Terms of Reference;**

Staff, in consultation with the Task Force Chair, recommend the approval of IPSAS 48.

**(e) The IPSASB considers whether there has been a substantial change to the exposed document such that a vote on re-exposure is necessary;**

Staff completed a thorough analysis in Agenda Item 6.2.2, and confirm that there have been substantial changes that could require a vote on re-exposure by the IPSASB. However, staff concluded that the benefits of re-exposure do not justify the costs from a public interest perspective. Changes since the EDs reflect matters raised in comment letters to help constituents understand the principles and apply the Standard (IPSAS 48) in practice. While the accounting aim and outcome of the Standard is consistent with the ED, there were substantial changes to how the principles were presented and explained in the Standard.

**(f) The IPSASB sets the effective date of the application of IPSAS 48; and**

The IPSASB will need to consider the effective date of IPSAS 48. Paragraph A44 of the IPSASB's Due Process and Working Procedures requires the IPSASB to consider the reasonable expected minimum period for effective implementation, including the need for translation into national languages.

Staff note that the IPSASB's usual practice when approving a new IPSAS is to set an effective date that commences:

(a) A minimum of 18 months after the publication of a Standard; and

(b) On January 1.

IPSAS 48 is expected to be published in May 2023. If the IPSASB were to follow its usual practice, this would result in an effective date of January 1, 2026 (31 months after publication).

Staff considered the following in proposing this effective date:

*[1] Effective Date of IFRS 15*

Staff noted that IPSAS 48 refers to various definitions and concepts from IPSAS 47, *Revenue*; therefore, IPSAS 48 should have the same effective date as IPSAS 47. IFRS 15, *Revenue from Contracts with Customers*, from which the binding arrangement accounting requirements in IPSAS 47 are primarily drawn from, originally proposed a 2.5-year period for effective implementation.[2] The delayed effective date is because of the unique attributes of IFRS 15, including the wide range of entities that will be affected and the potentially significant effect that a change in revenue recognition has on other financial statement line items (IFRS 15, BC450). This effective date provided enough time for all preparers to implement the requirements of IFRS 15.

[2] IFRS 15 was published in May 2014 with an original mandatory effective date of January 1, 2017 (i.e., 31 months). In September 2015, the IASB deferred this effective date to January 1, 2018, as it had tentatively decided to propose targeted amendments to IFRS 15 which entities may wish to apply at the same time. The amendments ("Clarifications to IFRS 15") were issued in April 2016 and did not change the underlying principles, but rather clarified its application and provided additional transitional relief. The updated IFRS 15 (i.e., with the 2016 Clarifications) was already available and considered by the IPSASB when it began drafting the proposals during ED stage.

Staff highlight that public sector preparers are facing a similar situation as in the private sector, as IPSAS 47 is a substantial change from existing revenue IPSAS (i.e., IPSAS 9, IPSAS 11, and IPSAS 23), and entities would benefit from additional time to address practical implementation challenges, such as the potential need for complex models and new or upgraded systems, in order to comply with IPSAS 47.

Staff conclude that there is merit in providing the same 2.5-year period as in the private sector for effective implementation of IPSAS 47, and therefore also IPSAS 48, in the public sector.

*[2] Other Considerations from the Public Interest Perspective*

The IPSASB discussed its recent and upcoming approvals at the February 2023 check-in meeting and considered how to stagger effective dates. The IPSASB tentatively agreed that an effective date of January 1, 2026 may be appropriate for IPSAS 48.

Staff are of the view that this effective date strikes a balance from a public interest perspective. While staff acknowledge that IPSAS 48 provides guidance on a topic that was previously not in IPSAS, the transfer expenses accounting model is relatively simple and consistent with the Conceptual Framework. However, IPSAS 48 refers to certain principles and definitions from IPSAS 47, so both standards should have the same effective date.

At this time, IPSAS 48 and IPSAS 47 are the only two IPSAS that may be effective on January 1, 2026.

*Conclusion*

Therefore, staff recommend an effective date for IPSAS 48 of January 1, 2026.

**(g) The IPSASB issues Basis for Conclusions with respect to comments received on an exposure draft.**

Staff highlights that [draft] IPSAS 48 includes Basis for Conclusions (Agenda Item 6.3.1).

## Considering the Need for Re-Exposure

### Question

1. Should IPSAS 48, Transfer Expenses be re-exposed?

### Recommendation

2. On balance, staff does not recommend re-exposure of IPSAS 48 because:

    (a) While substantial changes were identified which would constitute potential grounds for re-exposure, all changes were made in response to comments from respondents to ED 72; and

    (b) From a public interest perspective, the potential benefits do not justify the costs, as re-exposure is not expected to yield any new information not already considered by the IPSASB, but will impose significant costs on constituents and the IPSASB.

### Background

3. The IPSASB adopts a formal due process and working procedures in promulgating the IPSAS. The IPSASB has followed due process in the development of draft IPSAS 48 (see Appendix B for relevant excerpts).

4. Due process now requires the IPSASB to:

    (a) **Approve the new final standard before deliberating re-exposure** – This enables the IPSASB to evaluate whether it has effectively considered and made decisions that address all matters raised in comments, independent of whether re-exposure is beneficial;

    (b) **Determine whether a vote on re-exposure is necessary** – The Working Procedures of Due Process provide considerations for this assessment. The need for re-exposure is considered wholistically, including the benefits and costs to the IPSASB and to public interest; and

    (c) **If the IPSASB concludes a vote is necessary, then IPSASB members will vote on re-exposure** – Re-exposure requires 2/3 of IPSASB members to vote in favor, and the basis for re-exposure is recorded in the minutes.

5. The IPSASB has never re-exposed a pronouncement since its due process was documented and formalized in 2016 as part of the implementation of its new oversight arrangements. Staff have not identified any previous instances of re-exposure prior to due process being documented and formalized. Re-exposure is also rare with the related international standard setting boards affiliated with IFAC.[3]

### Analysis

6. Due Process does not require re-exposure; rather it requires the IPSASB to consider whether there has been a substantial change to the exposed document which would *warrant* re-exposure. The related working procedures include three examples:

    (a) Substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IPSASB before it reaches a final conclusion;

[3] The International Auditing and Assurance Standards Board and the International the International Ethics Standards Board for Accountants have considered re-exposure, however, actual instances of re-exposure are rare.

(b) Substantial change arising from matters not previously deliberated by the IPSASB; or

(c) Substantial change to the substance of a proposed international standard.

7. To determine if re-exposure is warranted, staff considered whether: A) there were substantial changes to the final standards; and B) the benefits justify the costs of re-exposure.

*A – Substantial Changes Since Exposure in Response to Constituents' Comments*

8. At inception the Transfer Expenses project was undertaken to add guidance in the public sector for accounting for transfer expenses, an area of significant public sector transactions where a gap in the literature existed. The essence of the project has always been about the timing of recognition of transfer expenses, and when a transfer provider has rights that give rise to an asset (delaying the recognition of an expense). The proposals in ED 72 and the new standard are consistent in the accounting aims and outcomes. However, the updated guidance achieves these through a much more clear, concise, and practical accounting model.

9. The following table summarizes differences between IPSAS 48 and ED 72. Staff note that there clearly are substantive changes between ED 72 and IPSAS 48 (see Appendix A for details):

| Principle or Topic | ED 72 | IPSAS 48 | Assessment |
|---|---|---|---|
| **Structure** | One exposure draft | One standard | **No change** |
| **Identifying the transaction** | Existence of the transfer recipient's performance obligations | Existence of a binding arrangement | **Revised** to simplify assessment of which model to apply and to move away from transfer recipient's perspective |
| **Recognition** | Asset recognition based on transfer recipient's performance obligation | Asset recognition based on transfer provider's transfer right | **Revised** to focus on transfer provider's perspective |
| **Measurement** | Carrying amount of the transferred resources, with adjustments mirroring revenue | Carrying amount of the transferred resources; variable consideration based on IPSAS 19 | **Simplified** requirements |
| **Display and Disclosure** | New display and disclosure requirements | Leverages requirements from existing IPSAS with limited new requirements | **Simplified** requirements |
| **Transitional Provisions** | Retrospective application only | Retrospective or prospective application | **Simplified** requirements (if prospective application is used) |
| **Non-Authoritative Guidance** | 2 IGs<br>41 IEs mirroring revenue | 10 IGs<br>11 IEs | **Revised** to focus on key principles and implementation challenges |

10. Although there are substantive differences between ED 72 and draft IPSAS 48, staff observed that the changes were made to address and reflect feedback from constituents to:

    (a) Focus on the perspective of the transfer provider;

    (b) More clearly articulate core principles;

    (c) Simplify guidance where possible, especially when complexity was introduced by mirroring the revenue proposals in ED 70 and ED 71; and

    (d) Improved non-authoritative guidance to focus on areas that could be challenging for constituents to implement.

11. Furthermore, the IPSASB actively obtained and considered constituent feedback in its work through:

    (a) **Two Consultations** – The 2017 Consultation Paper (CP) received 38 responses, and the 2020 ED 72 received 65 responses. The IPSASB deliberated and considered all constituent comments in forming its views on developing IPSAS 48.

    (b) **Active Involvement in Drafting from Key IPSAS Adopters** – The IPSASB undertook an innovative approach for this project by establishing a Drafting Group (DG), which included representatives from the United Nations and the European Commission. The DG worked closely with staff to draft guidance based on the IPSASB's decisions and has helped assess the areas of judgement that should be supported with non-authoritative guidance. This approach allowed us to actively consider the usability and readability of the proposed IPSAS through regular touchpoints and ongoing engagement with these key constituents; and

    (c) **Outreach Activities** – Throughout the project, IPSASB members and staff continued to engage with constituents through workshops, discussions, and review of real arrangement.

*B – Costs/Benefits of Re-exposure*

12. The second consideration for re-exposure is whether the expected benefits of re-exposure, when compared to its costs, justify re-exposure.

13. **Potential benefits are limited:**

    (a) **Opportunity for Additional Feedback** – As noted in paragraph 9, the key changes from ED 72 include: the move away from the Public Sector Performance Obligation Approach (PSPOA), change in entity perspective to focus on the transfer provider's perspective, and simplification of guidance where possible. These changes are all substantive and could warrant re-exposure to provide constituents an opportunity to make their views known to the IPSASB. However, as noted in paragraphs 10-11, all changes were made in response to the comments received from ED 72 and were reviewed by key constituents who were part of the Drafting Group. In many cases, the revisions were directly based on suggestions provided by respondents.

14. **Expected costs may be significant:**

    (a) **No Substantive Comments Expected** – The new accounting model in transfer expenses is simple, practical, and easy to understand and apply. It is based on first principles from the IPSASB's Conceptual Framework regarding the recognition of assets and existing accounting practices for prepaid expenses, which is a long-known accounting concept in both the public and private sectors. If IPSAS 48 were to be re-exposed, staff do not expect any substantive comments or new information from constituents, as moving away from the proposals would in effect be departing from the Conceptual Framework;

(b) **Not in the Public Interest** – The Transfer Expenses project is now in its eighth year and users of IPSAS are still awaiting this important guidance. Once the final standard is published, national standard setters in jurisdictions that use IPSAS indirectly will need to undertake their own adoption processes or to undertake their own consultations with stakeholders. Preparers of IPSAS will have to start their process of implementing the standards, this will include training and likely systems updates. The sooner the final standard is published the faster the work to implement the standards can be undertaken. Re-exposure will not serve the public interest, as it will delay the implementation of the guidance in this area which has long been perceived as a significant gap in IPSAS literature; and

(c) **Unnecessary Use of Resources** – Re-exposure requires additional resources from IPSASB and staff. Re-exposure will delay the progress of other new project work as staff and board resources will be needed to undertake outreach on the re-exposure draft, review responses and make any final changes deemed necessary. As staff does not expect any substantive changes from what is proposed in the final draft standard as a result of the factors above and the development processes summarized in paragraph 11, re-exposure appears to be a compliance exercise that would not be a good use of the IPSASB's resources.

*Summary*

15. The staff recommendation on balance is to not re-expose draft IPSAS 48, *Transfer Expenses*, due to the following reasons:

(a) Although the core principles in the new standard are updated and different from those exposed in ED 72, the changes made since the EDs reflect areas of feedback from constituents where changes and clarification were needed. Furthermore, key IPSAS constituents have already provided their input through their participation in the Drafting Group; and

(b) In addition, staff do not expect much benefit from re-exposure. The new standard is based on fundamental principles from the IPSASB's Conceptual Framework and long-standing practices for prepaid expenses, so no substantive feedback is expected. Re-exposure would only delay filling the gap in IPSAS literature.

16. The decision on whether to re-expose draft IPSAS 48, *Transfer Expenses*, is separate from the equivalent decision for draft IPSAS 47, *Revenue*, and will not be impacted by this, or vice versa.

**Decision Required**

17. Does the IPSASB agree with the Staff recommendation?

## Appendix A – Summary of Changes since the Exposure Drafts

The following table summarizes key changes since the proposed transfer expense Exposure Draft (ED 72).

| Change | ED 72 | Constituent feedback/concerns | IPSAS 48 | Assessment of Change |
|---|---|---|---|---|
| **Structure** | One standard | • No substantive comments | One standard | **No change** |
| **Identifying the transaction** | Accounting model based on existence of transfer recipient's performance obligations | • Use of PSPOA was too complex to apply in practice for transfer expenses<br>• Required information from the transfer recipient | Whether there is a binding arrangement | **Substantive change:**<br>• Revised focus creates a clearer, more logical, and more streamlined process to assess which accounting model to apply<br>• Removed reliance on information from the transfer recipient |
| **Recognition** | Use of transfer recipient's performance obligation | • Accounting was driven by information from the transfer recipient which may not be available to the transfer provider<br>• Asset recognition appeared to be rules-based, as the focus was on whether a performance obligation exists | Asset recognition based on transfer provider's transfer right | **Substantive change:**<br>• Revised to focus on transfer provider's perspective as requested by respondents<br>• Explained, at a principles level, why a transfer provider's enforceable right could result in the recognition of a transfer right asset |
| **Measurement** | Carrying amount of the transferred resources, with adjustments mirroring revenue proposals | • Adjustments based on revenue proposals were seen as too complex or not applicable for transfer expenses | Carrying amount of the transferred resources; variable consideration based on IPSAS 19 | **Substantive change:**<br>• Simplified requirements as requested by constituents |
| **Display and Disclosure** | New display and disclosure requirement | • Mirroring display and disclosure requirements from | Leverages requirements from existing IPSAS with | **Substantive change:**<br>• Simplified requirements as requested by constituents |

| Change | ED 72 | Constituent feedback/concerns | IPSAS 48 | Assessment of Change |
|---|---|---|---|---|
| | | revenue was seen as overly onerous<br>• Required disclosures that were not previously required for items of a similar nature (e.g., prepaid expenses) | limited new requirements | |
| **Transitional Provisions** | Retrospective application only | • Too onerous, especially for funding that has already occurred in previous periods | Retrospective or prospective application | **Substantive change:**<br>• Simplified transition (if prospective application is used), as requested by constituents |
| **Non-Authoritative Guidance** | 2 IGs<br>41 IEs | • As principles on asset recognition was unclear, needed significant non-authoritative guidance to support key principles<br>• Examples were seen as too extensive while not addressing the key challenges for transfer expenses, as examples were based on revenue proposals | 10 IGs<br>11 IEs | **Substantive change:**<br>• Comprehensively revised non-authoritative guidance to focus on key principles and implementation challenges, as requested by constituents |

## Appendix B – IPSASB Due Process

### Compliance with Due Process to Date

a) The IPSASB has followed due process in the development and approval of draft IPSAS 48, *Transfer Expenses*, including key due process steps below:

- March 2015 Project Brief – The IPSASB completed scoping activities, including consultation with constituents to prioritize work program topics, and research issues to address.
- August 2017 Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* – While optional, the IPSASB acknowledged that Revenue is a more complex project and issued a CP to obtain constituent input early in the standard development process. The 38 responses from constituents to the CP are posted publicly on the IPSASB website.
- February 2020 Exposure Draft (ED) 72, *Transfer Expenses* – The IPSASB considered constituent inputs from the CP phase to develop, approve, and publish an ED for public exposure. The 65 responses from constituents to the ED are posted publicly on the IPSASB website.
- March 2023 IPSAS 48, *Transfer Expenses* – The IPSASB began deliberating the feedback on the ED in December 2020, and has since refined the ED proposals and addressed constituent comments, culminating in IPSAS 48.

### Relevant Extracts from the IPSASB's Due Process

b) The IPSASB's Due Process is available on the IPSASB website. The relevant material to re-exposure considerations includes paragraphs 25–27 and A43.

…

**Approval of an International Standard, and Consideration of the Need for Re-Exposure**

…

25. The IPSASB votes on the approval of the final revised content of an exposed international standard in accordance with its terms of reference. Approval of the final revised content of an exposed international standard is an approval for its issue as a final international standard, unless the IPSASB subsequently votes in favor of re-exposure as described below. (Ref: Para. A39-A40)

26. After approving the final revised content of an exposed international standard, the IPSASB considers whether there has been a substantial change to the exposed document such that a vote on re-exposure is necessary. An affirmative vote in accordance with the IPSASB's terms of reference that re-exposure is required to issue a re-exposure draft. The basis of the IPSASB's decisions with respect to re-exposure is recorded in the minutes of the IPSASB meeting at which the related project is discussed. (Ref: Para. A41-A43)

27. When an exposure draft is re-exposed, the summary memorandum accompanying the re-exposure draft includes the reasoning for re-exposure and sufficient information to allow an understanding of the changes made as a result of the earlier exposure.

…

## Working Procedures

…

### Approval of a Pronouncement, and Consideration of the Need for Re-Exposure

*…*

*Re-Exposure* (Ref: Para. 26)

…

A43. Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IPSASB before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the IPSASB; or substantial change to the substance of a proposed international standard. Re-exposure of a final international standard requires a positive vote of two thirds of IPSASB members.

…

## Supporting Document 1 – [Draft] IPSAS 48, *Transfer Expenses*

1. The draft Transfer Expenses IPSAS is posted separately for easier readability. If approved for issuance in March 2023, this would become IPSAS 48, *Transfer Expenses*.

2. The IPSASB completed detailed page-flips of the [draft] IPSAS 48 at its previous meetings (up to and including the February 2023 check-in). To facilitate review, staff highlight that:

   (a) Revisions since the version presented at the February 2023 IPSASB check-in are **in tracked changes**; and

   (b) Minor editorial and formatting changes have been accepted to facilitate readability.