

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Virtual Meeting

**Meeting Date:** June 15–18 and 22, 2021

# Agenda Item 6

For:

☐ Approval

☒ Discussion

☐ Information

## REVENUE AND TRANSFER EXPENSES

<b>Project summary</b>	<p>The aim of the Revenue project is to develop one or more standards that provide recognition and measurement requirements for revenue transactions.</p> <p>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.</p>	
<b>Task Force members</b>	<p>Staff and the IPSASB Chair considered the need for a Task Force in Q2 and concluded that it is not needed at this time. The need and composition of such a Task Force will continue to be re-assessed.</p>	
<b>Meeting objectives</b> <b>Project management</b>	<b>Topic</b>	<b>Agenda Item</b>
	<a href="#">Revenue and Transfer Expenses: Project Roadmap</a>	<a href="#">6.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">6.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">6.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Confirm and Present the Binding Arrangement Concept (Revenue)</a>	<a href="#">6.2.1</a>
	<a href="#">Confirm and Present the Binding Arrangement Concept (Transfer Expenses)</a>	<a href="#">6.2.2</a>
	<a href="#">How Enforceability is Exercised</a>	<a href="#">6.2.3</a>
	<a href="#">Revising and Applying Guidance on the Definition of a Liability (Revenue)</a>	<a href="#">6.2.4</a>
<b>Other supporting items</b>	<a href="#">Supporting Document 1 – Revised Guidance Related to the Definition and Recognition of Binding Arrangements (Revenue)</a>	<a href="#">6.3.1</a>
	<a href="#">Supporting Document 2 – Revised Guidance Related to the Definition of Binding Arrangements (Transfer Expenses)</a>	<a href="#">6.3.2</a>
	<a href="#">Supporting Document 3 – Updated Project Plans</a>	<a href="#">6.3.3</a>

### REVENUE AND TRANSFER EXPENSES: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
<b>Revenue with Performance Obligations</b>	
March 2015	1. Approve Project Brief
June 2016	1. Discussion of the performance obligation approach with the Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018 to December 2018	1. Review Responses to the Consultation Paper
March 2019	1. Preliminarily approve the core text and authoritative guidance of the Exposure Draft
June 2019	1. Preliminarily approve updates to the core text and authoritative guidance of the Exposure Draft
December 2019	1. Approve Exposure Draft
March 2020 to September 2020	1. Document Out for Comment
December 2020 to March 2021	1. Review Responses 2. Discuss Issues
June 2021-September 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2021	1. Approve IPSAS
<b>Revenue without Performance Obligations</b>	
March 2015	1. Approve Project Brief
June 2016	1. Discussion of IPSAS 23 Implementation Issues with Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018 to December 2018	1. Review Responses to Consultation Paper
March 2019 to June 2019	1. Develop Underlying Principles of Core Text and Authoritative Guidance
September 2019	1. Review first draft of ED, and discuss issues
December 2019	1. Approve Exposure Draft
March 2020 to September 2020	1. Document Out for Comment
December 2020 to March 2021	1. Review Responses 2. Discuss Issues
June 2021-September 2021	1. Review Responses 2. Discuss Issues

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	3. Develop IPSAS
December 2021	1. Approve IPSAS
<b>Transfer Expenses</b>	
March 2018	1. Review of responses – PSPOA 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 2. Initial discussion of definitions 3. Discussion of PSPOA 4. Initial discussion of presentation 5. Initial discussion of effective date and transition requirements 6. Initial review of draft ED
June 2019	1. Discussion of scope and definitions 2. Discussion of subsidies and premiums 3. Discussion of additional material to be included in the ED 4. Discussion of examples to be included in the ED
September 2019	1. Disclosures – discussion of issues 2. Review of initial draft of ED
December 2019	1. Review of draft ED final amendments 2. Review of examples – exception basis only 3. Approval of ED
March 2020 to September 2020	1. Document Out for Comment
December 2020 to April 2021	1. Review Responses 2. Discuss Issues
June 2021- September 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2021	1. Approve IPSAS

### INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
<b>Revenue</b>		
March 2021	1. Recommend amended title(s) for the proposed revenue standard(s) when all key decisions have been made in the revenue project.	1. In progress
March 2021	2. Develop the two standalone [draft] revenue IPSAS based on Option 1, subject to a final review after development on whether to maintain the split based on existence of a performance obligation, or to combine them based on the degree of duplication.	2. In progress
March 2021	3. Determine whether the use of the term binding arrangement, as currently defined in [draft] IPSAS, <i>Revenue with Performance Obligations</i> , is conceptually consistent with the <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the Conceptual Framework) and existing IPSAS, and whether the current definition and term is still appropriate at standards-level. Consider source material of definitions in IPSAS, and whether there is an issue with consistency from sourced literature.	3. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a>
March 2021	4. Revise and relocate existing guidance related to binding arrangements and enforceability to better communicate the agreed upon principles and examples of indicators to help an entity assess whether enforceability can be demonstrated.	4. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a>
March 2021	5. Revise guidance in accordance with all other proposed changes outlined in Appendix 4 of the March 2021 Agenda Item 5.2.4.	5. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a>
March 2021	6. Draft guidance to better articulate that performance obligations also entail a greater specificity, and provides more objective and	6. In progress

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	specific identification, recognition, and measurement of revenue.	
March 2021	7. Draft additional Basis for Conclusions paragraphs to address concerns from specific constituents to explain why the IPSASB decided to move away from using exchange and non-exchange as defined terms to classify revenue and to explain that it remains an appropriate concept used to describe the economic substance of such transactions in the public sector.	7. In progress
March 2021	8. Draft guidance to clarify how an entity should account for transactions with components within the scope of the two standards, where it is unclear to appropriately allocate transaction price to components under different standards.	8. In progress
March 2021	9. Refine existing guidance on what gives rise to a liability (deferred revenue).	9. In progress
March 2021	10. Present detailed analysis on recognition of revenue as a liability is satisfied, including what constitutes an outflow.	10. In progress – Relevant analysis introduced in <a href="#">Agenda Item 6.2.4</a> . Analysis will continue in September 2021
March 2021	11. Clarify the guidance for situations where the satisfaction of a present or performance obligation occurs prior to the receipt of cash and incorporate this guidance in an example on multi-year arrangements.	11. In progress
December 2020	1. Regarding the staff's proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector.	1. In progress
December 2019	1. All instructions provided up until December 2019 were reflected in	1. All instructions provided up until December 2019 were reflected in

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	the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>	the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>
<b>Transfer Expenses</b>		
April 2021	1. Reconsider the working title of the proposed transfer expense standard after reviewing and assessing constituent comments on scope.	1. In progress
April 2021	2. Clarify through additional guidance that each party in a binding arrangement would have at least one present obligation.	2. See Agenda Items <a href="#">6.2.2</a> and <a href="#">6.3.2</a>
April 2021	3. Clarify through additional guidance on types of expense transactions within the scope of transfer expense standard.	3. In progress
April 2021	4. Consider whether there are any useful implementation examples that clearly communicate the principles and are jurisdictionally neutral.	4. In progress
April 2021	5. Provide explicit guidance on that assessment of enforceability when an entity first enters into an arrangement is based on the ability to enforce and not probability of enforcement at inception.	5. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a> for revenue, and Agenda Items <a href="#">6.2.2</a> and <a href="#">6.3.2</a> for transfer expenses
April 2021	6. Assess whether the transfer provider's right in a binding arrangement where the transfer provider has already satisfied or partially satisfied its obligation(s), meets the criteria for asset recognition in the Conceptual Framework.	6. In progress
April 2021	7. Further consider the distinction between transfer expenses with and without performance obligations by first focusing on principles at the higher level (present obligations), and then considering any incremental accounting guidance necessary for the subset (performance obligations).	7. In progress
April 2021	8. Clarify in guidance that the transfer provider may provide non-cash assets as part of the fulfillment of	8. In progress

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	specific obligations in a binding arrangement.	
April 2021	9. Propose guidance on how to account for transfer expense transactions in both the separate and consolidated financial statements of counterparties within the same economic entity, with consideration of any relevant existing guidance in IPSAS 35.	9. In progress
April 2021	10. Consider whether disclosures are necessary for binding arrangements that are equally unfulfilled at reporting date; and if so, what disclosures are required.	10. In progress
April 2021	11. Consider whether the term "present obligation" is appropriate when the binding arrangement is equally unfulfilled, as there would not yet be a binding obligation where there is little or no realistic alternative to avoid outflow of resources.	11. In progress
April 2021	12. Consider the nature of the asset that would be recognized by the transfer provider when the transfer recipient has a present obligation.	12. In progress
April 2021	13. Consider what constitutes an onerous contract for a transfer expense.	13. In progress
April 2021	14. Provide specific guidance through examples on accounting for partially fulfilled binding arrangements.	14. In progress
December 2020	1. Regarding the staff's proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector.	1. In progress
December 2019	1. All instructions provided up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 72, Transfer Expenses</a>	1. All instructions provided up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 72, Transfer Expenses</a>

### DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
<b>Revenue</b>		
March 2021	1. Revise the title(s) of the proposed revenue standard(s) to reflect the nature of revenue transactions in the public sector.	1. In progress
March 2021	2. For the time being, continue to present revenue guidance as two separate standards with the standard based on ED 71, <i>Revenue without Performance Obligations</i> first (i.e., Option 1).	2. In progress
March 2021	3. Retain the concept of a binding arrangement as a fundamental concept for revenue accounting, and that the existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present obligation.	3. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a> , final BC reference pending
March 2021	4. Adopt the principle that 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 binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations.	4. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a> , final BC reference pending
March 2021	5. Highlight that an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable.	5. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a> , final BC reference pending
March 2021	6. Retain revenue from performance obligations as a separate type of revenue.	6. In progress
March 2021	7. Highlight that performance obligations are a subset of present obligations that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary.	7. In progress
March 2021	8. Revise existing Application Guidance to state that, where there is objective evidence that a portion of consideration relates to the	8. In progress



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	transfer of distinct goods or services to the purchaser/transfer provider or a third-party beneficiary, disaggregate the transaction price and account for the component(s) relating to the transfer of distinct goods or services in accordance with ED 70, Revenue with Performance Obligations then use ED 71 to account for any remaining component(s). If the portion is unclear, account for the entire transaction in accordance with ED 71.	
March 2021	9. Highlight that enforceability in a binding arrangement gives rise to a liability (deferred revenue) for the transfer recipient to the extent that the terms of the arrangement are not yet satisfied.	9. In progress
March 2021	10. Proceed with the proposed revenue project plan, use in-period review sessions as needed, and revisit the need, role, and composition of a Task Force in Q2 2021.	10. Staff and the IPSASB Chair considered the need for a Task Force in Q2 and concluded that it is not needed at this time. The need and composition of such a Task Force will continue to be re-assessed
December 2020	1. Reorder the draft guidance in ED 70 and ED 71 to begin with ED 71, either as a separate standard, or a combined standard.	1. In progress
December 2020	2. 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.	2. In progress
December 2019	1. All decisions made up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>	1. All decisions made up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>
<b>Transfer Expenses</b>		
April 2021	1. Address principle-related issues raised by constituents first, before considering other issues raised.	1. In progress
April 2021	2. Revise the presentation of guidance in the transfer expense standard to better reflect the public sector.	2. In progress

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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. See Agenda Items <a href="#">6.2.2</a> and <a href="#">6.3.2</a> , final BC reference pending
April 2021	4. Confirm that, in a binding arrangement, each party will have at least one present obligation.	4. See Agenda Items <a href="#">6.2.2</a> and <a href="#">6.3.2</a> , final BC reference pending
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. See Agenda Items <a href="#">6.2.2</a> and <a href="#">6.3.2</a> , final BC reference pending
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. In progress
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. In progress
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. In progress
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. In progress
April 2021	10. Confirm, for revenue, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is	10. In progress

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	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).	
April 2021	11. 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.	11. In progress
April 2021	12. Confirm an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitute a single asset or liability.	12. See Agenda Items <a href="#">6.2.1</a> and <a href="#">6.3.1</a> for revenue, and Agenda Items <a href="#">6.2.2</a> and <a href="#">6.3.2</a> for transfer expenses. Final BC reference pending
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. In progress
December 2019	1. All decisions made up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 72, Transfer Expenses</a>	1. All decisions made up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 72, Transfer Expenses</a>

## **Confirm and Present the Binding Arrangement Concept (Revenue)**

### **Question**

1. Does the IPSASB agree with staff recommendations to address Board instructions and incorporate the proposed revised guidance for binding arrangements into the Revenue standard(s)?

### **Recommendations**

2. Staff recommend:
  - (a) Retaining the definition of 'binding arrangement' as currently proposed in the draft Revenue standard(s), as it is conceptually consistent with the definition elsewhere in IPSAS literature, with a minor revision to the wording in the definition; and
  - (b) Incorporating the revised guidance into the Revenue standard(s) as proposed in [Agenda Item 6.3.1](#).

### **Background**

3. In March 2021, the IPSASB discussed constituent comments relating to the concept, use, and the specific guidance on binding arrangements as proposed in the Revenue Exposure Drafts (ED) 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations* (presented in March 2021 [Agenda Item 5.2.4 and its Appendix 4](#)).
4. The IPSASB decided to retain the concept of a binding arrangement as it remains fundamental for revenue accounting. The IPSASB also reviewed and agreed with substantially all changes staff proposed (in Appendix 4 noted above). The IPSASB instructed staff to:
  - (a) Determine whether the definition of 'binding arrangement' proposed in ED 70, is conceptually consistent with the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and existing IPSAS literature, and whether the current definition and term is still appropriate at standards-level. Consider source material of definitions in IPSAS, and whether there is an issue with consistency from sourced literature;
  - (b) Revise and relocate existing guidance related to binding arrangements and enforceability to better communicate the agreed upon principles, and examples of indicators to help an entity assess whether enforceability can be demonstrated; and
  - (c) Propose revised guidance in accordance with all other proposed changes agreed upon by the IPSASB during its review of Appendix 4 of the March 2021 [Agenda Item 5.2.4](#), to clarify specific principles related to binding arrangements.

### **Analysis**

#### *Conceptually consistent definition of a binding arrangement*

5. To determine whether the definition of 'binding arrangement' in the proposed Revenue standard(s) is conceptually consistent and appropriate at standards-level, staff:
  - (a) Reviewed the inputs and considerations in developing the term in ED 70 (paragraphs 6-7);
  - (b) Compiled the definitions and descriptions of 'binding arrangement' in the Conceptual Framework and other IPSAS (paragraph 8, and [Appendix A](#)); and

- (c) Compared the principles in each definition and description for consistency (paragraph 9).

Based on this assessment, staff then consider whether revisions are necessary and propose changes to the definition of 'binding arrangement' in the Revenue standard(s) (paragraphs 10-11).

6. ED 70 defined 'binding arrangement' as "*an arrangement that confers both enforceable rights and obligations on both parties to the arrangement*"<sup>1</sup> (emphasis added). This definition is the result of several inputs:

- (a) **Existing definitions in IPSAS** – The IPSASB initially considered using the existing IPSAS definitions of the term 'binding arrangement'.
- (b) **IPSASB decisions during ED development** – The IPSASB discussed the definition of a binding arrangement as it developed the Revenue EDs:
- (i) The IPSASB decided in September 2018 to replace all references to 'contract' that was in IFRS 15 with the expanded concept 'binding arrangement' as this more appropriately underpins revenue transactions in the public sector.
- (ii) The IPSASB considered using the definition in IPSAS 35, *Consolidated Financial Statements*<sup>2</sup> and ultimately concluded that a different definition is needed for ED 70 to avoid any potential misinterpretation that it must be like a contract. A revised definition was proposed in March 2019.
- (iii) The IPSASB decided in December 2019 to add the word 'both' before 'parties' to more explicitly emphasize the Board's March 2019 decision that a binding arrangement is a two-way relationship.<sup>3</sup> Any arrangement where only one party has enforceable rights and obligations would not meet the definition of a binding arrangement as defined in the proposed Revenue standard because there is no two-way enforceability.<sup>4</sup>

Deliberations between December 2018 and December 2019 culminated in the definition of a binding arrangement proposed in ED 70, and deliberations are summarized in ED 70 BC24.

- (c) **IFRS 15 alignment** – The proposed definition in ED 70 is consistent with the description provided in IFRS 15, paragraph 10: "*A contract is an agreement between two or more parties that creates enforceable rights and obligations.*"
7. The IPSASB reaffirmed principles related to the concept of 'binding arrangement', which are part of the ED 70 definition, during its March 2021 meeting.
8. 'Binding arrangement' is also defined or described in the Conceptual Framework and certain IPSAS. Staff reviewed these instances in existing IPSAS literature in [Appendix A](#), and noted there are:

<sup>1</sup> ED 70, paragraph 7.

<sup>2</sup> The use of the IPSAS 35 definition was first proposed in a draft ED 70 (December 2018 [Agenda Item 10, Appendix 1](#)).

<sup>3</sup> See December 2019 [Agenda Item 5](#) Meeting Minutes.

<sup>4</sup> ED 71 BC11 explained that "*transactions which are not binding arrangements are not automatically unenforceable.*" Transactions that do not qualify as 'binding arrangements' for the purposes of the Revenue standard(s) because they lack two-way enforceability may still be enforceable through one-way enforceability.

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- (a) Two different definitions of the term 'binding arrangement' in existing IPSAS (specifically in IPSAS 32, *Service Concession Arrangements: Grantor*, and IPSAS 35)<sup>5</sup>, with minor wording differences; and
- (b) One description on what constitutes a binding arrangement (in IPSAS 31, *Intangible Assets*).

While these IPSAS are primarily drawn or adapted from IFRS literature, the specific definitions and descriptions of binding arrangements were added to IPSAS for public sector purposes.

9. From a principle's perspective, these definitions and descriptions are consistent with the definition proposed in the draft Revenue standard(s):

- (a) **Rights and obligations** – The definitions and descriptions all require the arrangement to confer both rights and obligations. As presented in the [April 2021 Agenda Item 1.2.3](#), the rights and the obligations within a binding arrangement are interdependent and cannot be separated. These rights and obligations are described as similar to those in a contract.
- (b) **Enforceability** – The definition in IPSAS 35 explicitly includes the word 'enforceable'. The definition in IPSAS 32 and description in IPSAS 31 do not explicitly include the word 'enforceable'; however, inherently, binding arrangements in these IPSAS are also enforceable because the arrangements are *binding*.
- (c) **Parties with enforceable rights and obligations** – The definitions and descriptions all imply that there is more than one party with enforceable rights and obligations. In other words, a binding arrangement confers two-way enforceability of rights and obligations at a minimum (i.e., arrangements where only one party has enforceable rights and obligations would not meet the definition of a binding arrangement).

Based on the above, staff are of the view that the definitions and descriptions are conceptually consistent (i.e., consistent in principle) throughout IPSAS and the proposed Revenue standard(s).

10. From a detailed wording perspective, staff considered the rationale for differences between the definition in ED 70 and in other IPSAS literature and noted the wording differences are a result of conscious decisions by the Board during the development of the Revenue EDs (outlined in paragraph 6(b)).
11. Given that there is no conceptual difference (i.e., no difference in principles) between the definition of a binding arrangement in the proposed Revenue standard(s) and in existing IPSAS literature, and that the exact definitions are intentionally different in wording, staff recommend:
- (a) Retaining the existing definition of 'binding arrangement' in ED 70 with a minor change: "*an arrangement that confers both enforceable rights and obligations on ~~both two or more~~ parties to the arrangement*".
    - (i) Rationale: As presented in March 2021 ([Agenda Item 5.2.4, Appendix 4](#)), a few constituents noted that the definition of binding arrangements could instead refer to multiple parties (two or more). In that analysis, staff acknowledged that binding arrangements in the public sector may include multiple parties (i.e., two or more parties) where each party has their own enforceable rights and obligations within the

<sup>5</sup> Overall, five IPSAS include a specific definition for binding arrangement in its core text. Four of these IPSAS (IPSAS 35, 36, 37, and 38) provide the same definition for the term. For the purposes of this analysis, staff will refer to the definition in these four IPSAS as a single definition. See [Appendix A](#) for details.

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arrangement, and the Board agreed during its discussions in March. Thus, the wording 'both parties' in the definition could be revised to 'two or more parties'. This wording is also used in IFRS 15.

- (b) Clarifying in core text that the definition provided is '*for the purposes of this Standard*'.
- (i) Rationale: The additional wording would clarify that the definition provided is specific and intended for the revenue accounting standard(s), as noted above.

12. Thus, the full revised definition in the final Revenue standard(s) would be:

Core text
Definition
<b>For the purposes of this Standard, a <u>binding arrangement</u> is an arrangement that confers both enforceable rights and obligations on both two or more parties to the arrangement. A <u>contract</u> is a type of <u>binding arrangement</u> (paragraphs AGXX-AGXX provide additional guidance).</b>

### *Revising guidance related to binding arrangements*

13. Staff have proposed revised and additional guidance related to binding arrangements from the revenue perspective (see [Agenda Item 6.3.1](#)). The proposed guidance is based on three inputs:
- (a) Existing guidance originally proposed in ED 70 and ED 71, pertaining to definition and recognition of binding arrangements;
  - (b) Additional or revised guidance as a result of IPSASB decisions on specific principles related to binding arrangements, along with new paragraphs in the Basis for Conclusions; and
  - (c) New, revised, or relocated guidance to reflect IPSASB instructions, as noted in paragraphs 4(b) and 4(c).
14. This proposed guidance has been presented (independent from other revenue guidance) in [Agenda Item 6.3.1](#) for the IPSASB's review. The proposed guidance related to the definition and recognition of binding arrangements approved by the IPSASB will be incorporated into the Revenue IPSAS. Some guidance will be repeated to comply with the IPSASB's decision that two Revenue IPSAS should be able to standalone.

### **Decision Required**

15. Does the IPSASB agree with the Staff recommendations?



## Appendix A – Use of the Term ‘Binding Arrangement’ in other IPSAS

1. To complete the analysis, staff:
  - (a) Reviewed the *Handbook of International Public Sector Accounting Pronouncements* (2021 Edition) and identified which IPSAS use, define, and/or describe the term ‘binding arrangement’ (in [blue](#), below);
  - (b) Determined whether the term, as used in the identified IPSAS, is conceptually consistent with the definition proposed in the draft Revenue standard (ED 70). Conceptual consistency is assessed by comparing the principle(s) emphasized in the definition or description in that specific IPSAS against those proposed in ED 70; and
  - (c) Considered the source material for any existing definitions or descriptions of ‘binding arrangement’ identified in step (a), and whether any inconsistencies identified were introduced from the source literature.

Document	Use in IPSAS literature	Source material	Staff analysis
<b>Uses the term <u>and</u> provides a specific definition or description</b>			
<b>IPSAS 31, <i>Intangible Assets</i></b>	Provides a standard-specific description in paragraph 20 under the Definition section of core text: “ <a href="#">For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.</a> ” Subsequent guidance notes that this “includes rights from contracts or other legal rights.” This description is essentially the same as the definition provided in IPSAS 32 (below). While the description is not explicit, ‘binding arrangement’ as used in this IPSAS would inherently be <u>enforceable</u> since that arrangement is binding.	Primarily drawn from IAS 38, <i>Intangible Assets</i> , which uses but does not define nor describe ‘contract’. ‘Binding arrangement’ was added to IPSAS to better capture ways in which identifiable intangible assets may arise, outside of contracts, in the public sector.	<b>No issues.</b> In principle, the use of the term is consistent with the proposed use in the draft Revenue standard(s).
<b>IPSAS 32, <i>Service Concession Arrangements: Grantor</i></b>	Provides a standard-specific definition, as the term had been used but not defined prior to the issuance of IPSAS 32. In paragraph 8: “ <a href="#">For the purposes of this Standard, [a binding arrangement] describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.</a> ” The standard also notes that a service concession arrangement is a type of binding arrangement. While the definition is not explicit, ‘binding arrangement’ as used in this IPSAS would inherently be <u>enforceable</u> since that arrangement is binding.	Adapted from IFRIC 12, <i>Service Concession Arrangements</i> , which uses and describes arrangements that are in scope of the IFRIC (and IPSAS 32’s definition of a service concession arrangement is consistent with this description). Binding arrangement was added to IPSAS for public sector purposes (explained in BC10).	<b>No issues.</b>



## Agenda Item 6.2.1

Document	Use in IPSAS literature	Source material	Staff analysis
<b>IPSAS 35, Consolidated Financial Statements</b>	<p>Provides a standard-specific definition in paragraph 14: “<u>For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.</u>”</p> <p>IPSAS 35 elaborates on this definition by stating that binding arrangements can be evidenced in several ways (i.e., not always in writing), and may arise from legislative or executory authority that <u>create enforceable arrangements</u> similar to contractual arrangements.</p> <p>Furthermore, an entity is encouraged to consider multiple factors and mechanisms, both implicit and explicit, in determining whether the rights within the binding arrangement give rise to power over another entity. In other words, judgment is required to determine whether an entity has power (i.e., ability to enforce the terms and conditions) over another entity.</p>	<p>Primarily drawn from IFRS 10, <i>Consolidated Financial Statements</i>, which uses but does not define nor describe ‘contractual arrangement’.</p> <p>Binding arrangement was added to IPSAS to better capture ways in which control may be demonstrated for consolidation purposes in the public sector. The use of the term ‘binding arrangement’ in IPSAS is intended to be broader than the IFRS term.</p>	<b>No issues.</b>
<b>IPSAS 36, Investments in Associates and Joint Ventures</b>	<p>Provides a standard-specific definition in paragraph 8 which, along with supporting guidance on how binding arrangements are evidenced, are the same as in IPSAS 35.</p>	<p>Primarily drawn from IAS 28, <i>Investments in Associates and Joint Ventures</i>, which uses and describes ‘joint arrangement’. It also uses but does not define ‘contractual arrangement’.</p> <p>Binding arrangement was added to IPSAS for the same reason as in IPSAS 35.</p>	<b>No issues.</b>
<b>IPSAS 37, Joint Arrangements</b>	<p>Provides a standard-specific definition in paragraph 7 which, along with supporting guidance on how binding arrangements are evidenced, are the same as in IPSAS 35.</p> <p>The AGs also provide further guidance on binding arrangements specifically in the context of joint arrangements.</p>	<p>Primarily drawn from IFRS 11, <i>Joint Arrangements</i>, which uses and defines ‘joint arrangement’. It also uses but does not define ‘contractual arrangement’.</p> <p>Binding arrangement was added to IPSAS for the same reason as in IPSAS 35.</p>	<b>No issues.</b>
<b>IPSAS 38, Disclosure of Interests in Other Entities</b>	<p>Provides a standard-specific definition in paragraph 7 which, along with supporting guidance on how binding arrangements are evidenced, are the same as in IPSAS 35.</p>	<p>Primarily drawn from IFRS 12, <i>Disclosures of Interests in Other Entities</i>, which uses but does not define nor describe ‘contractual arrangement’.</p> <p>Binding arrangement was added to IPSAS for the same reason as in IPSAS 35.</p>	<b>No issues.</b>

## Agenda Item 6.2.1

Document	Use in IPSAS literature	Source material	Staff analysis
<b>Uses the term <u>without</u> explicitly defining or describing it</b>			
<b>Conceptual Framework</b>	Uses the term in the Basis for Conclusions to describe ways in which unconditional rights, executory contracts, and performance obligations may arise (from “contracts or other binding arrangements”). The guidance generally implies that the entities in the binding arrangement have <u>both rights and obligations</u> with <u>no realistic alternative to avoid</u> but emphasizes that transactions should be considered at standards level. The Conceptual Framework also generally defers to specific standards for the applicable accounting.	n/a – the Conceptual Framework is unique to IPSAS.	<b>No issues.</b>
<b>IPSAS 11, Construction Contracts</b>	Uses the term in the core text as part of the definition of construction contracts. Paragraph 7 indicates that for the purposes of the standard, ‘construction contracts’ also includes all arrangements that are <u>binding on the parties to the arrangement</u> , which may not take the form of a documented contract (i.e., may not constitute a legal contract, or be in written form), but still <u>confers similar rights and obligations on the parties</u> as if it were in the form of a contract.	Primarily drawn from IAS 11, <i>Construction Contracts</i> , which defined ‘construction contract’. IAS 11 was superseded by IFRS 15. IPSAS 11 includes binding arrangements that do not take the form of a legal contract within the scope of the Standard to better reflect transactions in the public sector.	<b>No issues.</b> IPSAS 11 will be replaced by the results of this revenue project.
<b>IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets</b>	Uses the term in AGs as it relates to scope of the IPSAS (as/through “contracts and other binding arrangements”).	Primarily drawn from IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .	<b>No issues.</b> Binding arrangements is not separately described in principle and is presumed to be consistent with definitions in other IPSAS.
<b>IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)</b>	Uses the term in core text to describe ways in which external parties may <u>impose terms on the use of transferred assets</u> by the recipient that result in a stipulation. Stipulations only exist if the binding arrangement, law, or regulation is <u>enforceable</u> , and may result in present obligations.	n/a – the Standard is unique to IPSAS.	<b>No issues.</b> IPSAS 23 will be replaced by the results of this revenue project.

## Agenda Item 6.2.1

Document	Use in IPSAS literature	Source material	Staff analysis
<b>IPSAS 28, Financial Instruments: Presentation</b>	Use of the term 'binding arrangements' was considered in lieu of the term 'contractual arrangements'. BC16 explains that 'binding arrangement' has not been defined but has been used in IPSAS to describe arrangements that are <u>binding on the parties</u> , but do not necessarily take the form of a documented contract. The IPSASB had concluded that the term embraces a wider set of arrangements than those covered by 'contractual arrangements' and was not necessary to include in IPSAS 28.	Primarily drawn from IAS 32, <i>Financial Instruments: Presentation</i> .	<b>No issues.</b> The term was not used in providing accounting guidance in IPSAS 28.
<b>IPSAS 33, First-time Adoption of Accrual Basis IPSASs</b>	Uses the term as it pertains to first-time adoption of IPSAS 32.	n/a – the Standard is unique to IPSAS.	<b>No issues.</b> See analysis above re IPSAS 32.
<b>IPSAS 40, Public Sector Combinations</b>	Uses the term as it pertains to basis/ways in which identifiable assets may arise (and includes rights from contracts and other legal rights).	Primarily drawn from IFRS 3, <i>Business Combinations</i> .	<b>No issues.</b> Binding arrangements is not separately described in principle and is presumed to be consistent with definitions in other IPSAS.

## Confirm and Present the Binding Arrangement Concept (Transfer Expenses)

### Question

1. Does the IPSASB agree with staff recommendations to address Board instructions and incorporate the proposed revised guidance for binding arrangements into the Transfer Expenses standard?

### Recommendations

2. Staff recommend:
  - (a) Incorporating the definition of 'binding arrangement' as currently proposed in [Agenda Item 6.2.1](#) into the Transfer Expenses standard, as it is conceptually consistent with the definition elsewhere in IPSAS literature; and
  - (b) Incorporating the revised guidance into the Transfer Expenses standard as proposed in [Agenda Item 6.3.2](#), subject to pending discussions on the distinction of transfer expenses with and without performance obligations.

### Background

3. The IPSASB's work on transfer expenses is closely related to its work on revenue, and accounting principles developed under the Transfer Expenses project are intended to be consistent with the principles for equivalent revenue transactions developed under the Revenue project. Each standard should also stand-alone.
4. In April 2021, the IPSASB considered the key issues identified in the responses to ED 72, *Transfer Expenses*, and the implications of decisions made in the Revenue project on the principles in ED 72. At this meeting, the IPSASB decided to:
  - (a) Retain binding arrangement as a fundamental concept for transfer expense accounting. Principles related to binding arrangements should be consistent [with the revenue project]. Identification and assessment of a binding arrangement is from the perspective of the entity.
  - (b) Confirm that, in a binding arrangement, the transfer provider and the transfer recipient will each have at least one present obligation.
  - (c) Confirm that enforceability can be demonstrated by various mechanisms in transfer expense accounting, and all relevant factors should be considered in that analysis.

### Analysis

5. There are no differences between the concept of a binding arrangement in the Revenue project and the concept of a binding arrangement in the Transfer Expenses project, except a change in perspective on the transaction (from the transfer recipient's to the transfer provider's perspective). In other words, there is no conceptual nor principle-based reason to use a different definition of a binding arrangement in the transfer expense standard. Any differences in the wording of the standard will be to reflect (1) the perspective of the transfer provider, or (2) where terminology differs between the standards. Consequently, the analysis in [Agenda Item 6.2.1](#) applies equally to transfer expenses.
  - (a) Reference was made to ED 70 for the definition of a binding arrangement in lieu of providing it in the proposed Transfer Expenses standard. To ensure the standard is freestanding, the revised definition proposed for the Revenue standard(s) should also be incorporated into the Transfer Expense standard.

*Revising guidance related to binding arrangements*

6. Staff have proposed revised and additional guidance related to binding arrangements from the transfer expenses perspective (see [Agenda Item 6.3.2](#)). The proposed guidance is based on the following inputs:
  - (a) Existing guidance originally proposed in ED 72 pertaining to the definition of binding arrangements.
  - (b) Existing definition and guidance originally proposed in ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations* pertaining to the definition of binding arrangements; ED 72 relied on the definition in ED 70 in lieu of including a definition of binding arrangements.
  - (c) New, revised, or relocated guidance to reflect IPSASB instructions to be included in ED 70 and ED 71 (see [Agenda Item 6.2.1](#) and [Agenda Item 6.3.1](#)).
7. This proposed guidance has been presented (independent from other transfer expenses guidance) in [Agenda Item 6.3.2](#) for the IPSASB's review.
  - (a) Like the proposed guidance for the Revenue IPSAS, the proposed guidance related to the definition of a binding arrangement approved by the IPSASB will be incorporated into the Transfer Expenses IPSAS. Some guidance will be repeated from the Revenue standards; this is consistent with the IPSASB's decision that the standards should standalone.
  - (b) Unlike the proposed guidance for the Revenue IPSAS, the proposed guidance presented in [Agenda Item 6.3.2](#) for the Transfer Expenses IPSAS does not include guidance on the recognition of a binding arrangement. Only authoritative material is included at this time. This is because the IPSASB will consider at future meetings whether the recognition requirements for transfer expenses arising from binding arrangements proposed in ED 72 require amendment, in light of the comments made by respondents, such as those around the distinction between transfer expenses with and without performance obligations.
8. The final location of the proposed guidance will also depend on the IPSASB's decisions regarding the recognition requirements for transfer expenses arising from binding arrangements. Existing and new Basis for Conclusions will also be proposed subsequently after further IPSASB discussions on transfer expense issues raised by respondents to ED 72.

**Decision Required**

9. Does the IPSASB agree with the Staff recommendations?

## **How Enforceability is Exercised**

### **Question**

1. Does the IPSASB agree that enforceability imposes implicit and/or explicit consequences on parties that do not fulfill their stated obligations in a binding arrangement?

### **Recommendations**

2. Staff recommend the IPSASB:
  - (a) Confirm that enforceability imposes implicit and/or explicit consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement; and
  - (b) Incorporate the proposed revised guidance on enforceability into the standards (paragraph 21).

### **Background**

3. As discussed in March 2021, a majority of constituents (77%) agreed or partially agreed with the concept and definition of a binding arrangement proposed in Exposure Draft (ED) 70, *Revenue with Performance Obligations*. The IPSASB considered constituent comments related to binding arrangements and discussed enforceability in-depth, as enforceability is integral to the concept and definition of a binding arrangement: enforceability makes an arrangement *binding* (see March 2021 [Agenda Item 5.2.4](#)). Subsequently at its April 2021 check-in, the IPSASB also considered whether decisions from its March Revenue discussion were also appropriate for the Transfer Expense project.
4. Key IPSASB decisions pertaining to binding arrangements and enforceability of binding arrangements in both the Revenue and Transfer Expense projects are:
  - (a) The concept of a binding arrangement remains fundamental for both revenue accounting and transfer expense accounting. Principles related to binding arrangements should be consistent.
  - (b) Confirm that enforceability of a binding arrangement can arise from (i.e., be demonstrated by) various mechanisms, so long as they provide the entity with the ability to enforce the binding arrangement and hold the parties accountable for the satisfaction of stated obligations. An entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable.
5. These IPSASB decisions achieve consistency in principles across the two projects, highlight that enforceability can arise from various mechanisms (i.e., “**what**” empowers an entity to enforce a binding arrangement), and emphasize that each entity must consider and assess all relevant factors.
6. This paper intends to further the discussion and provide clarity on enforceability by bringing together key past IPSASB discussions and considering “**how**” identified mechanisms of enforceability enable enforcement of the terms and conditions of a binding arrangement. The clarity from this analysis (together with [Agenda Item 6.2.4](#)) will help advance the ongoing discussion on the nature and existence of a liability in the context of revenue accounting and the future discussion on the nature and existence of an asset in the context of transfer expense accounting.

## Analysis

### *Enforceability through legal or equivalent means*

7. Public sector entities may enter into arrangements (i.e., obtain rights and obligations when transacting with other entities) through various means such as legal contracts, legislative or executive authority, or cabinet and ministerial directives. This influenced the IPSASB's decision to use 'binding arrangement' in the EDs instead of 'contract' as in IFRS 15. This is because the concept of a binding arrangement better encompassed ways in which public sector entities may transact outside of legal contracts, as some entities may have the authority to enter into binding arrangements without the power to enter into legal contracts.<sup>6</sup> In other words, the EDs proposed that a binding arrangement has the force of a contract without necessarily being a contract.
8. The IPSASB has also discussed and confirmed that enforceability is integral to the definition of a binding arrangement and is the mechanism which makes an arrangement *binding*. ED 70 paragraph 9 indicated that "enforceability of [an entity's] rights and obligations in a binding arrangement is created through legal or equivalent means". Legal or equivalent means is intended to be consistent with the concept of 'legal obligation' in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) Chapter 5.
  - (a) 'Legal means' specifically relates to judicial means (i.e., enforceable in court) in which an entity can enforce their rights and obligations in a binding arrangement.
  - (b) 'Equivalent means' was included for public sector reasons to capture ways in which some public sector entities transact, because some entities cannot enter into legal arrangements in their own name. However, these entities can still enter into and enforce binding arrangements in a similar manner as entities that are able to enter into and enforce arrangements with contract laws (i.e., enforceable like the force of law without being legal in nature, through alternative enforcement processes). 'Equivalent means' is not intended to capture 'non-legal' means, but rather to encompass 'like legal' means to ensure the concept is appropriate for application in a public sector context.
  - (c) Both legal means and equivalent means provide "compulsion through the legal system"<sup>7</sup> and are intended to reflect ways in which an entity can enforce its rights and obligations in a binding arrangement, either by legal means or equivalent means. In other words, they are enforceable through laws of contract, or equivalent authority/arrangements. Enforceability through legal means and equivalent means is consistent with the description of a 'legal obligation' in the Conceptual Framework Chapter 5, where a 'legal obligation' includes both transactions enforced through variety of legal constructs, through laws of contract and through alternative processes with equivalent effect.
  - (d) 'Legal means' and 'equivalent means' both differ from 'non-legal means'. 'Non-legal means' relate to 'non-legally binding obligations' as set out in the Conceptual Framework (or constructive obligations as per IPSAS 19, *Provisions, Contingent Liabilities and Contingent*

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<sup>6</sup> Relevant guidance and IPSASB decisions include ED 70 paragraphs AG11-AG12, AG13-24, BC24, and BC51-BC52.  
<sup>7</sup> ED 70 AG16.

*Assets*) where an entity may have an obligation arise from past practice, published policies, or specific behaviors, but this entity cannot take legal or equivalent action.<sup>8</sup>

9. Together, 'legal or equivalent means' comprise 'legal enforceability' as presented in ED 70 AG16: specifically, legal enforceability arises from the compulsion by a legal system, which includes judicial means (i.e., rulings or case law precedence in the jurisdiction's courts), legislative means, executive authority, and cabinet ministerial directives. Staff propose to simplify the term to 'enforceability' to avoid confusion that enforceability can only be from legal means. The application guidance currently proposed is sufficiently clear that enforceability encompasses both legal and equivalent means (i.e., "like legal").
10. The IPSASB also discussed and agreed in March 2021 that:
  - (a) Enforceability means the involved parties are *held accountable* (i.e., "bound") to the terms and conditions of the arrangement, and there are *consequences from non-completion*; and
  - (b) Consequences vary by binding arrangement, may be unique in each jurisdiction, and may be in the form of repayments, penalties, or impacts on future engagement (as examples). An entity should apply judgment to identify consequences in its specific binding arrangement.
11. Put together, the above IPSASB discussions indicate that enforceability of a binding arrangement enables entities in that binding arrangement to hold the involved parties accountable by imposing consequences from non-completion through legal or equivalent means. The following analysis provides additional details on when and how consequences arise, and how exercise of enforceability imposes consequences. This is intended to further clarify the concept and principle of enforceability confirmed by the IPSASB in March 2021, through examples, to help advance future discussions (noted in paragraph 6).

*When consequences arises*

12. When an entity first enters into a binding arrangement with one or more other parties, the binding arrangement does not result in any accounting until one of the parties in the arrangement begins to fulfill its obligation.<sup>9</sup> While no party has fulfilled its stated obligations (agreed-upon when entering the binding arrangement), the binding arrangement is wholly unfulfilled (or 'wholly unperformed', as described in ED 70 paragraph 11).
13. Once one entity (Entity A) has fulfilled its obligation(s) in the binding arrangement, the enforceability mechanism(s) within the binding arrangement hold the other party (or parties) accountable to fulfilling their respective obligation(s) agreed-upon by all involved parties, thereby fulfilling Entity A's right(s). However, if the other party does not fulfill its obligations (i.e., the binding arrangement remains partially fulfilled), mechanisms of enforceability would impose consequences on that party through legal or equivalent means. Staff present the following two scenarios to assist the analysis of "how" mechanisms of enforceability impose consequences on partially fulfilled binding arrangements.

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<sup>8</sup> See Conceptual Framework Chapters 5.20-5.26 for more guidance on legal obligations and non-legally binding obligations. See IPSAS 19 for guidance on constructive obligations, which is associated with the concept of non-legally binding obligations.

<sup>9</sup> The IPSASB confirmed this principle in April 2021.



	Scenario 1 <i>Transfer provider fulfills its obligation first</i>	Scenario 2 <i>Transfer recipient fulfills its obligation first</i>
<b>One party fulfills its obligation</b>	If the <b>transfer provider</b> fulfills its obligation (i.e., to provide the resources promised in the binding arrangement), it has an enforceable right to compel the transfer recipient to fulfill its obligation(s) (i.e., either a present obligation or a performance obligation).	If the <b>transfer recipient</b> fulfills its obligation(s) (i.e., either a present obligation or a performance obligation), it has an enforceable right to receive resources from the purchaser (transfer provider).
<b>Timing of resources</b>	Scenario 1 is generally the more common fact pattern for revenue and transfer expense transactions in the public sector, where resources are provided by the transfer provider <u>before</u> the transfer recipient begins fulfilling its stated obligations (i.e., the present obligation(s) or performance obligation(s) in the binding arrangement).	Scenario 2, while less common, may still occur in public sector binding arrangements, where resources are provided by the transfer provider <u>after</u> the transfer recipient begins fulfilling its stated obligations (i.e., the present obligation(s) or performance obligation(s) in the binding arrangement).
<b>When consequences arise</b>	Non-completion by the <b>transfer recipient</b> would result in consequences. In other words, if the transfer recipient does not fulfill its stated obligations in compliance with the terms and conditions of the binding arrangement, the transfer provider is able to exercise its enforceability mechanisms in the binding arrangement to either compel the transfer recipient to comply with the binding arrangement (fulfill their stated obligations), or face consequences.  This is because the identified enforceability mechanisms enable the transfer provider to retain control over the resources transferred until the transfer recipient is compelled to fulfill its obligations.	Non-completion by the <b>transfer provider</b> would result in consequences. In other words, if the transfer provider does not fulfill its stated obligations (i.e., to provide the resources promised in the binding arrangement) in compliance with the terms and conditions of the binding arrangement, the transfer recipient is able to exercise the enforceability mechanisms in the binding arrangement to either compel the transfer provider to comply with the binding arrangement (fulfill their stated obligations), or face consequences.  This is because enforceability mechanisms enable the transfer recipient to enforce its right to receive resources related to the obligation(s) it has fulfilled to date.

## *How mechanisms of enforceability enforce the binding arrangement*

14. When non-completion occurs in either Scenario, the enforceability mechanisms (identified by the entity when it first enters into a binding arrangement) are intended to enable an entity to hold the other involved party (or parties) accountable through legal or equivalent means. As discussed by the IPSASB in March and April 2021, this enforceability is based on the ability to enforce the terms of the binding arrangement, and not the probability of whether enforceability is exercised.
15. Staff are of the view that “**how**” an enforceability mechanism is exercised by an entity (to enforce the terms of the binding arrangement) are demonstrated through the consequences imposed on the non-compliant party or parties. Mechanisms of enforceability may yield different results depending on the jurisdiction and the exact terms of the binding arrangement:

Result	Scenario 1 <i>Transfer provider fulfills obligation first</i>	Scenario 2 <i>Transfer recipient fulfills obligation first</i>
<b>Compel completion of unfulfilled obligation(s)</b>	Compel the transfer recipient to: (a) Comply (through fulfillment of the stated obligation(s)) by using the received resources for its intended purpose (fulfill its present obligation, or performance obligation); or	Compel the transfer provider to: (a) Comply (through fulfillment of the stated obligation(s)) by providing promised resources, equal to consideration associated with the present obligation or performance obligation fulfilled to date by the transfer recipient; or
<b>Potential consequences of non-completion</b>	Require the transfer recipient to: (a) Repay resources previously provided; or (b) Incur penalties now, or through reduced funding on future arrangements.	Require the transfer provider to: (a) Return goods or services previously provided, if able; or (b) Incur penalties now, or through implications on future arrangements.

16. Considering these results from the exercise of enforceability mechanisms, staff note:

- (a) **An effective enforceability mechanism can compel the extinguishment of non-compliance** – The exercise of an enforceability mechanism can compel the other party (or parties) in the binding arrangement to resolve non-completion by fulfilling the stated obligations that are not yet completed. For example, an entity may be able to take action (e.g., legal action in court, or through equivalent means) against the non-compliant party or withdraw any intentions to engage in future transactions with the non-compliant party in order to compel the non-compliant party to fulfill their stated obligations. This is not by nature a consequence; rather, such enforceability provides the entity with the ability and power to hold the other parties accountable to fulfilling their responsibilities within the binding arrangement. However, if the non-compliant party does not resolve their non-completion, that party cannot avoid the consequences of non-completion.
- (b) **Right of return is a predominant but not sole consequence** – The right of return could be in different forms depending on the Scenario and specific terms of the arrangement.
  - (i) Scenario 1: the right of return may be the repayment of resources previously received, by the transfer recipient, from the transfer provider.
  - (ii) Scenario 2: the right of return may also occur in cases where the binding arrangement includes a performance obligation that requires the transfer of promised goods to the transfer provider. In this case, if the transfer recipient fulfilled that performance obligation by providing distinct goods to the transfer provider, the right of return would require the transfer provider to return the goods received to the transfer recipient.
  - (iii) While the right of return is a common consequence for binding arrangements, it is by no means a prescriptive nor sole consequence. Furthermore, the right of return may be an explicit clause in some jurisdictions and binding arrangements, and implicit in others. An entity must apply judgment in identifying whether a binding arrangement has implicit or explicit right of return. Staff note that guidance related to the principle of enforceability should not be prescriptive to ensure that entities can exercise judgment when assessing their binding arrangements and the accounting consequences.

- (c) **Other consequences are economically consistent with the concept of a right of return** – Other potential consequences imposed on the non-compliant party (or parties) may ultimately lead to a form of a right of return. For example, penalties such as reduced funding on future arrangements are, in essence, a right of return because the non-compliant party would be forfeiting resources and thereby receive a reduced amount of overall funding. Other penalties may be incurred which, like rights of return, may result in an outflow of resources due to non-completion of its stated obligations in the binding arrangement. In other words, enforceability may be exercised, implicitly or explicitly, through some form of return, and are enforceable through legal or equivalent means.

*Importance of a principle-based analysis*

17. Similar to the assessment of *what* mechanisms of enforceability exist in a binding arrangement (where an entity must consider many different potential factors and mechanisms), an entity must also consider *how* these identified mechanisms of enforceability could impose consequences in various jurisdictions and by unique binding arrangements.
- (a) **How** the identified enforceability mechanisms are exercised, and what consequences are imposed on the parties that have not fulfilled their obligations, is not prescriptive. The form and nature of consequences in a binding arrangement will vary by jurisdiction and arrangement. Staff are of the view that guidance should be presented in a principle-based manner by referring to consequences imposed on the non-compliant party or parties rather than explicitly to right of return as in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, which some constituents considered to be similar to a rule. Guidance referring to consequences would provide entities the ability to apply professional judgment and consider the unique terms and economic events within a specific jurisdiction and arrangement.
- (b) An entity must consider both implicit and explicit consequences that may occur when the identified enforcement mechanisms are exercised in a binding arrangement, based on the facts and circumstances of the respective arrangement and jurisdiction(s), to determine whether the arrangement is enforceable in principle through legal or equivalent means.
18. **Put differently, a binding arrangement, which by definition is enforceable, has enforceability mechanisms which impose implicit or explicit consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement, and an entity should consider all facts and circumstances of the respective arrangement and jurisdiction(s) in its assessment.**
19. **If the mechanisms of enforceability identified by an entity at the inception of the arrangement do not in substance enable that entity to hold the other involved parties accountable to fulfilling their agreed-upon obligation(s) in the binding arrangement in cases of non-completion, through legal or equivalent means, then the arrangement is not in substance enforceable.** If the arrangement is not in substance enforceable, it is not a binding arrangement as defined in the proposed Revenue standard(s) and the transaction should be accounted for using ED 71 accounting guidance.

*Revising guidance related to enforceability*

20. Staff have proposed revised and additional guidance on enforceability as it pertains to binding arrangements (from the revenue perspective in [Agenda Item 6.3.1](#)). The process, inputs, and intention for the proposed guidance is consistent with that presented in [Agenda Item 6.2.1](#).

21. The IPSASB may also consider including the following in the Application Guidance on enforceability, based on the analysis in this paper:

“When an entity assesses the enforceability of a binding arrangement, the entity should consider how the identified mechanisms of enforceability impose implicit and explicit consequences on any party or parties that do not fulfill their agreed-upon obligation(s) in the binding arrangement, through legal or equivalent means. 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 to fulfilling their stated obligation(s) in cases of non-completion, by either compelling a non-compliant party to satisfy their stated obligations or face consequences, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.”

**Decision Required**

22. Does the IPSASB agree with the Staff recommendations?

## **Revising and Applying Guidance on the Definition of a Liability (Revenue)**

### **Question**

1. Does the IPSASB agree with the proposed changes to the Conceptual Framework guidance on the definition of a liability, and should be reflected in the ongoing Revenue discussions?

### **Recommendations**

2. Staff recommend:
  - (a) Clarifying the definition of a liability in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the IPSASB Framework) by:
    - (i) Revising the definition of a liability in the IPSASB Conceptual Framework to replace the wording 'outflow of resources' with 'transfer of resources', as in the IASB 2018 Conceptual Framework; and
    - (ii) Adding additional guidance and examples to the Conceptual Framework on 'transfer of resources' to clarify the ambiguities associated with what entails a 'transfer of resources', and a paragraph in the Basis for Conclusions that the wording change is a clarification rather than a substantive change; and
  - (b) Incorporating this additional clarity and guidance on the definition of a liability into the discussion on the existence of a liability in the Revenue project in September 2021.

### **Background**

3. The IPSASB began discussing constituent comments related to the existence of a liability in a binding arrangement without performance obligations in March 2021 ([Agenda Item 5.2.7](#)). Some respondents to Exposure Draft (ED) 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations* noted that there is an unclear basis for recognizing a liability, and disagreed with the notion that a transfer recipient cannot avoid an outflow of resources due to the possibility of incurring some form of fine or penalty in the event of a breach of a binding arrangement.
4. The existence and recognition of a liability presented in the Revenue EDs applied the definition of a liability in Chapter 5 of the IPSASB Framework. However, the identified constituent comments and the Board's initial discussion in March indicated that the meaning of 'outflow of resources' in this definition was not clear and that further analysis was necessary in order to appropriately consider liabilities in the revenue context.
5. The IPSASB is also in the process of updating the IPSASB Framework for a limited number of issues as part of its *Limited Scope Update of the Conceptual Framework* project (Limited Scope Update project), approved in March 2020. One key issue pertains to *Elements: The Definition of an Asset and a Liability* (Issue #7, summarized in the [2020 Project Brief](#)). The IPSASB intends to consider the IASB's definitions of an asset and a liability in its 2018 Conceptual Framework (the IASB Framework), which were finalized after the approval of the IPSASB Framework in 2014.
6. Given the uncertainty on the meaning of 'outflow of resources' in the context of the Revenue project and planned consideration of the current definition of a liability in the IPSASB Framework in the active Limited Scope Update project, staff have prepared the following paper to review the definition of a liability, particularly the use and meaning of 'outflow of resources'.

## Analysis

### *Current definition of a liability in the IPSASB Framework*

7. The current definition of a liability in the IPSASB Framework contains three components (a present obligation, an outflow of resources from the entity and a past event) and is similar to the definition in the IASB's 2010 Conceptual Framework<sup>10</sup>:

2014 IPSASB Framework	2010 IASB Framework
5.14 A liability is a <u>present obligation</u> of the entity for an <u>outflow of resources</u> that <u>results from a past event</u> .	49. A liability is a <u>present obligation</u> of the entity <u>arising from past events</u> , the settlement of which is expected to result in an <u>outflow from the entity of resources</u> embodying economic benefits.

*Emphasis was added to highlight conceptual consistency between the two definitions.*

8. A deficiency of the IPSASB Framework is that, while it states that an 'outflow of resources' is an essential attribute of a liability, it does not explain what an 'outflow of resources' entails. The IPSASB Framework provides limited guidance on an outflow of resources: "*a liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability*".<sup>11</sup> The BCs are silent on the IPSASB's reasons for adopting the term, and no examples are provided in the 2014 IPSASB Framework.<sup>12</sup>

### *Considering the IASB's revised definition of a liability*

9. The IASB revised its definition of a liability in its 2018 Framework to "*a present obligation of the entity to transfer an economic resource as a result of past events*." (emphasis added to highlight conceptual consistency with paragraph 7).
- (a) This revised definition now explicitly refers to "transfer [of] an economic resource" rather than "outflow from the entity of resources".
  - (b) The IASB also elaborated that, to meet the criterion to transfer an economic resource, the obligation must have the potential to require the entity to transfer an economic resource to another party (or parties).<sup>13</sup> (emphasis added)
10. The IASB explained in its Basis for Conclusions that it replaced the wording "outflow ... of resources" with "transfer [of] an economic resource", because interpretations of this term (inflow or outflow) can vary widely and are often tied to a notion of a threshold level of probability.<sup>14</sup>
11. The IASB's wording change is a clarification to, rather than a substantive change in, underlying concepts in the IASB Conceptual Framework on what items are considered to be liabilities under IFRS. Through its testing of the revised definitions, the IASB also concluded that these revised definitions do not result in inconsistencies with the IFRS standards.

<sup>10</sup> The IASB's 2010 definition of a liability was drawn from the *Framework for the Preparation and Presentation of Financial Statements*, which was issued by the International Accounting Standards Committee in 1989 and adopted by the IASB in 2001. Neither the IASB nor the IPSASB has aligned standards-level literature developed before the 2018 and 2014 Frameworks with those Frameworks, respectively.

<sup>11</sup> IPSASB Framework 5.16.

<sup>12</sup> In the development of the IPSASB Framework there was a general reluctance to include examples lest such examples be considered definitive or exclusive.

<sup>13</sup> IASB Conceptual Framework, paragraph 4.26 and 4.37.

<sup>14</sup> IASB Conceptual Framework, Basis for Conclusions 5.9(b).

12. Considering the IASB's revisions, staff are of the view that:
- (a) The rationale for the wording change, to clarify the underlying concepts, is also applicable and appropriate for the public sector, and would similarly represent a clarification rather than a substantive change in the IPSASB Framework; and
  - (b) The inclusion of 'economic' (as IASB refers to 'economic resource') is not necessary in the IPSASB Framework. In developing its 2014 Framework, the IPSASB had decided that the term 'resources' could stand alone without being complemented by 'economic', and there has been no subsequent reason to change this decision.

*Emphasizing the incremental transfer of resources*

13. The IPSASB Framework discusses the point at which a past event gives rise to a present obligation. The IASB's 2018 Framework emphasizes the importance of an incremental sacrifice of resources in determining whether a present obligation has arisen as a result of past events. Paragraph 4.43 of the IASB Framework states:

*A present obligation exists as a result of past events only if:*

- (a) *The entity has already obtained economic benefits or taken an action; and*
  - (b) *As a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer. (emphasis added)*
14. Staff considers that these are important considerations to also include in the IPSASB Framework to help determine whether liabilities exist. This paragraph provides clarification that an entity should consider whether the resources sacrificed by an entity are or are not incremental to those it would sacrifice (i.e., would or would not otherwise have had to transfer) in the ordinary course of activities when determining if the entity is has a present obligation arising from a past event.

*Implications for the Conceptual Framework Limited Scope Update and Revenue projects*

15. Based on the analysis, staff are of the view that:
- (a) The wording in the definition of a liability should be revised to replace the wording 'outflow of resources' with 'transfer of resources' to clarify the existing ambiguities, and a paragraph in the Basis for Conclusions should be added to communicate that the revision is a clarification, and not a substantive change; and
  - (b) Supporting guidance and examples should be added to the IPSASB Framework to further clarify the 'transfer of resources' and the incremental nature of this transfer (similar to guidance provided by the IASB in paragraph 13 and in [Appendix A](#)).
16. This revision and addition would help:
- (a) **Conceptual Framework Limited Scope Update Issue #7:** Clarify the definition of a liability in the IPSASB Framework, which will benefit the IPSASB in its standards development and make the document clearer for stakeholders; and
  - (b) **Revenue discussion on existence of a liability:** Provide additional considerations to further the analysis and discussion on if, and when, a liability exists for the transfer recipient in a binding arrangement in September 2021. From staff's preliminary view, the clarifications and updates to the IPSASB Conceptual Framework will help further this Revenue analysis:

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- (i) A liability would require the transfer recipient to transfer resources to another party (or parties) (noted in paragraph 9 above); and
  - (ii) A liability would entail an incremental transfer of resources (i.e., that the transfer recipient would not otherwise have had to transfer) as a result of the past event (noted in paragraph 13 above).
17. Proposed guidance for the Limited Scope Update, and further analysis and proposed guidance on the existence of a liability in the Revenue context will be presented at the September meeting for each respective project.

### **Decision Required**

18. Does the IPSASB agree with the Staff recommendations?



## **Appendix A: Useful Guidance and Examples from the IASB Framework**

The IASB's 2018 Conceptual Framework provided additional guidance and examples that staff consider to be useful to include in the update of the IPSASB Conceptual Framework. They are summarized below for the IPSASB's reference.

1. **Satisfying the 'transfer of economic resource' criterion for a liability:** The IASB Framework explains 'transfer [of] an economic resource' as an obligation that "must have the potential to require the entity to transfer an economic resource to another party (or parties)." The IASB Framework, paragraph 4.37 also provides further guidance that:
  - (a) For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource;
  - (b) The requirement for such a transfer may be dependent upon an unspecified future event;
  - (c) An obligation can meet the definition of a liability even if the probability of a transfer of an economic resource is low; and
  - (d) A low probability of transfer of an economic resource may affect decisions about what information to provide about the liability, including recognition and measurement.
2. **Examples of obligations to 'transfer an economic resource':** The IASB Conceptual Framework gives examples in paragraph 4.39 of an obligation to transfer an economic resource as obligations to:
  - (a) Pay cash;
  - (b) Deliver goods or provide services;
  - (c) Exchange economic resources with another party on unfavorable terms, such as forward contracts and options where terms are unfavorable for the entity; and
  - (d) Transfer an economic resource if a specified uncertain future event occurs.
  - (e) Issue a financial instrument if that financial instrument will oblige the entity to transfer an economic resource.
3. **Alternatives to fulfill an obligation other than 'transfer of economic resources':** The IASB Conceptual Framework provides further guidance and examples on ways that an obligation might be fulfilled other than transferring an economic resource to a counterparty in paragraph 4.40. Such examples are:
  - (a) Settling the obligation by negotiating a release from the obligation;
  - (b) Transferring the obligation to a third party; and
  - (c) Replacing the obligation to transfer an economic resource with another obligation by entering into a new transaction.

## Supporting Document 1 – Revised Guidance Related to the Definition and Recognition of Binding Arrangements (Revenue)

This Supporting Document presents the revised guidance proposed by staff for the Revenue standard(s), as referenced in preceding Agenda Items (for the definition and recognition of binding arrangements). It is comprised of the following:

1. **Existing guidance** – Staff compiled existing guidance originally proposed in ED 70 and ED 71 pertaining to the definition and recognition of binding arrangements;
2. **IPSASB decisions to date** – Staff added new or revised existing guidance, including new Basis for Conclusions, to reflect IPSASB decisions on specific principles related to binding arrangements (during both Revenue and Transfer Expense meetings to date). Decisions are summarized below:

Meeting	Change ID	Decision on Principles
March 2021	03-A	Retain the concept of a binding arrangement as a fundamental concept for revenue accounting, and that the existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present obligation.
March 2021	03-B	Adopt the principle that 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 binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations.
March 2021	03-C	Highlight that an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable.
April 2021	04-A	Confirm an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitute a single asset or liability.

3. **IPSASB instructions** – Staff propose new or revised guidance and relocated some existing guidance to reflect IPSASB instructions relating to binding arrangements (during both Revenue and Transfer Expense meetings to date). Instructions are summarized below:

Meeting	Change ID	Instructions
March 2021	03-D	Revise and relocate existing guidance related to binding arrangements and enforceability to better communicate the agreed upon principles, and examples of indicators to help an entity assess whether enforceability can be demonstrated.
March 2021	03-E	Revise guidance in accordance with all other proposed changes outlined in Appendix 4 of the March 2021 <a href="#">Agenda Item 5.2.4</a> .
March 2021	03-F	Determine whether the use of the term binding arrangement, as currently defined in [draft] IPSAS, <i>Revenue with Performance Obligations</i> , is conceptually consistent with the <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the Conceptual Framework) and existing IPSAS, and whether the current definition and term is still appropriate at standards-level. Consider source material of definitions in IPSAS, and whether there is an issue with consistency from sourced literature.
April 2021	04-B	Provide explicit guidance on that assessment of enforceability when an entity first enters into an arrangement is based on the ability to enforce and not probability of enforcement at inception.

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The proposed guidance is presented in the following format for easier review. This guidance is still in draft and is subject to subsequent revisions.

Guidance type			
Section			
Purpose of guidance	Source (existing ED guidance, Board decision, or staff proposal)	[Proposed new or revised guidance for the revenue IPSAS] [Grey – in cases where guidance remains relatively unchanged from existing source] <b>[Bold - main principles (per Framework preface paragraph 12)]</b>	Related Board discussion (Change ID)

Purpose	Sources	Draft Guidance	Related Board discussion
Core text			
Definition			
Binding arrangement definition	ED 70.7, ED 71.11, Board decision, <a href="#">Agenda Item 6.2.1</a>	<b>For the purposes of this Standard, a <u>binding arrangement</u> is an arrangement that confers both enforceable rights and obligations on both two or more parties to the arrangement. A <u>contract</u> is a type of <u>binding arrangement</u> (paragraphs AG7-AG12 [incorporated below] provide additional guidance).</b>	03-E June 2021 discussion
Forms of binding arrangements	ED 70.9, Addition to introduce forms, similar to other IPSAS [remainder was from IFRS 15]	Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding arrangements with purchasers vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of purchaser or the nature of the promised goods or services).	
Enforceability concept	ED 70.9, Board decision	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 binding arrangement and hold the parties accountable to the satisfaction of stated obligations.	03-B
	ED 70.AG10, ED 70.AG14, ED 71.22, ED 71.24, Board decision	In determining whether an arrangement is enforceable, the transfer recipient considers the substance rather than the legal form of the arrangement. <del>If past experience or knowledge indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance. If the transfer recipient does not have this experience or knowledge, then the transfer recipient assumes that the transfer provider would enforce the binding</del>	03-D

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Purpose	Sources	Draft Guidance	Related Board discussion
		<del>arrangement and, therefore, enforceability has substance.</del> 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. No account is taken of the probability that one or more parties to the arrangement may not enforce the satisfaction of the other parties' stated obligations even if entitled to do so.	
Enforceability concept – appropriations	ED 71.36	When a binding arrangement specifies that the resources to be transferred to the transfer recipient by a transfer provider are subject to the appropriation being authorized, the transfer recipient considers substance over form in determining whether the transfer recipient has control of those resources prior to the appropriation being authorized.	
	ED 71.37	The limitation (that the resources to be transferred are subject to the appropriation being authorized) does not have substance when the transfer recipient can establish an enforceable right to those resources, before the appropriation is authorized. Paragraphs AG28-AG32 [incorporated below] provides additional guidance on appropriations.	
Interdependent right and obligations concept; At least two-way enforceability	Board decision	A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. The entity's enforceable right and obligation within the binding arrangement are interdependent and inseparable. At least one other party involved in the binding arrangement also has an interdependent right and obligation to which they are held accountable.	03-A 04-A
At least one present obligation	ED 71.14, ED 71.23, Board decision	A binding arrangement has at least one present obligation because its enforceability holds the entity accountable to fulfill the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the outflow of resources.	03-A
Wholly unfulfilled binding arrangements	ED 70.11	For the purpose of applying this <del>(draft)</del> Standard, an arrangement is not a binding arrangement <del>does not exist</del> if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly <del>unperformed</del> unfulfilled binding arrangement without compensating the other party (or parties). A binding arrangement is wholly <del>unperformed</del> unfulfilled if both of the following criteria are met: <ul style="list-style-type: none"> <li>(a) The entity has not yet <del>transferred any promised goods or services to the purchaser or third-party beneficiary</del> fulfilled any of its stated obligations in the binding arrangement; and</li> <li>(b) The entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.</li> </ul>	
Further guidance	ED 70.8	Paragraphs AG7-AG24 [incorporated below] provides additional guidance on binding arrangements.	

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Purpose	Sources	Draft Guidance	Related Board discussion
<b>Recognition</b>			
Duration of a binding arrangement	ED 70.10	Some binding arrangements with purchasers may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this <del>draft</del> Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which both the parties to the binding arrangement have present enforceable rights and obligations.	
Consider appropriate IPSAS for a binding arrangement	ED 71.9, <i>Board decision</i>	At inception, an entity should use professional judgment to determine whether any of the present obligations within a binding arrangement is a performance obligation as defined in IPSAS [X] (ED 70). <ul style="list-style-type: none"> <li>(a) Any identifiable components of a binding arrangement with performance obligations should be accounted for using the five-step model in IPSAS [X] (ED 70) if all of the criteria in IPSAS [X] (ED 70) paragraph 8 [incorporated above] is met;</li> <li>(b) Any identifiable components of a binding arrangement without performance obligations, or components of a binding arrangement with performance obligations that did not meet all of the criteria in IPSAS [X] (ED 70) paragraph 8 [incorporated above], are recognized according to the principles and requirements of this IPSAS [X] (ED 71);</li> <li>(c) Where it is not possible to distinguish between the components with performance obligations and the components without performance obligations, the transaction is accounted for in accordance with IPSAS [X] (ED 71).</li> </ul>	03-E
In scope of ED 70	ED 70.8, <i>Board decision</i>	<b><i>Step 1: Identifying the Binding Arrangement to be Accounted for Using the Five-Step Model</i></b>  An entity shall account for performance obligations in a binding arrangement with a purchaser using the five-step model in this IPSAS [X] (ED 70) if all of the following criteria are met: <ul style="list-style-type: none"> <li>(a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;</li> <li>(b) The entity can identify each party's rights regarding the goods or services to be transferred;</li> <li>(c) The entity can identify the payment terms for the goods or services to be transferred;</li> <li>(d) The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the</li> </ul>	03-E

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Purpose	Sources	Draft Guidance	Related Board discussion
		<p>binding arrangement) (paragraphs AG26-AG28 [incorporated below] provide additional guidance); and</p> <p>(e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser or third-party beneficiary (paragraphs AG29-AG31 [incorporated below] provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the purchaser's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the binding arrangement if the consideration is variable because the entity may offer the purchaser a price concession (see paragraph 51).</p> <p>Paragraphs AG7-AG24 [incorporated below] provide additional guidance on identifying the binding arrangement.</p>	
	ED 70.12	If a binding arrangement with a purchaser meets the criteria in paragraph 8 [incorporated above] at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a purchaser's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the purchaser or third-party beneficiary.	
In scope of ED 71	ED 70.13, ED 70.14, Board decision	<p>When a binding arrangement with a purchaser within the scope of this [draft] Standard includes performance obligations but does not meet all of the criteria in paragraph 8 [incorporated above], and an entity shall recognize the transaction according to the principles and requirements of IPSAS [X] (ED 71). receives consideration from the purchaser, the entity shall recognize the consideration received as revenue only when either of the following events has occurred:</p> <p>(a) The entity has transferred the goods or services to which the consideration that has been received relates, the entity has no obligation to transfer additional goods or services for the consideration received, and the consideration received from the purchaser is non-refundable; or</p> <p>(b) The binding arrangement has been terminated and the consideration received from the purchaser is non-refundable.</p>	03-E

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Purpose	Sources	Draft Guidance	Related Board discussion
		An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 8 [incorporated above] are subsequently met.	
	ED 70.15	<del>An entity shall recognize the consideration received from a purchaser</del> Any consideration received from the purchaser at inception shall be recognized by the entity as a liability until one of the events in paragraph 14 occurs or until the criteria in paragraph 8 [incorporated above] are subsequently met (see paragraph 13). Depending on the facts and circumstances relating to the binding arrangement, the liability recognized represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the purchaser.	
<b>Application Guidance</b>			
<b>Definition – Binding arrangement</b>			
Binding arrangement definition	ED 70.AG 7, Board decision	<del>The [draft] Standard is underpinned by the definition of a binding arrangement, being</del> A binding arrangement, which is an arrangement that confers both enforceable rights and obligations on <del>both</del> two or more parties to the arrangement, is a fundamental concept for revenue accounting.	03-A
Forms of binding arrangements	ED 70.AG 11, ED 71.AG 15	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.	
<b>Definition – Enforceability</b>			
Enforceability concept	ED 70.AG 12, ED 71.AG 10, ED 70.AG 7, Board decision	<del>To be within the scope of this [draft] Standard</del> The interdependent rights and obligations in <del>these</del> a binding arrangements must be enforceable. 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 binding arrangement and hold the involved parties accountable to the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable when it first enters into the arrangement (i.e., at inception), and this assessment should be based on whether the entity has the ability to enforce, rather than the probability of enforcement.	03-B 04-B
	ED 70.AG 8, ED 71.AG 12,	Since binding arrangements and enforcement of such arrangements can arise from various mechanisms, an entity should objectively assess all relevant factors at the transaction date to determine whether an	03-C

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Purpose	Sources	Draft Guidance	Related Board discussion
	ED 70.AG9, ED 71.AG13, ED71.AG11, Board decision, <a href="#">Agenda Item 6.2.3</a>	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 where 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 system, that is similar to the force of law without being legal in nature, is required to establish the right of the purchaser to obligate the entity to complete the agreed obligation or be subject to remedies for non-performance non-completion. Similarly, a 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 transfer recipient to obligate the transfer provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering both the legal and equivalent means in which the involved parties enforce each the respective rights and obligations under the binding arrangement.	
	EG 70.AG10, ED 71.AG14, Board decision	In the public sector, an arrangement is enforceable when each of the entity and the purchaser involved parties are both is able to enforce their respective rights and obligations through legal or equivalent means various mechanisms. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes: <ul style="list-style-type: none"> <li>(a) Distinct rights and obligations for both purchaser and entity (resource recipient) each involved party; and</li> <li>(b) Remedies for non-performance non-completion by the entity each involved party which can be enforced by the purchaser through legal or equivalent means through the identified enforcement mechanisms.</li> </ul>	03-B
	<a href="#">Agenda Item 6.2.3</a>	When an entity assesses the enforceability of a binding arrangement, the entity should consider how the identified mechanisms of enforceability impose implicit and explicit consequences on any party or parties that do not fulfill their agreed-upon obligation(s) in the binding arrangement, through legal or equivalent means. 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 to fulfilling their stated obligation(s) in cases of non-completion, by either compelling a non-compliant party to satisfy their stated obligations or face consequences, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.	June 2021 discussion
	ED 70.AG16, ED 71.AG17,	<del>Legal</del> Enforceability arises from the compulsion by a legal system, comprising including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply	



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Purpose	Sources	Draft Guidance	Related Board discussion
	<a href="#">Agenda Item 6.2.3</a>	with the terms of the binding arrangement) or compliance with a binding arrangement is determined based on the principles set out in the laws and/or regulations of a jurisdiction, which through equivalent means (laws and regulations, includes including legislation, executive authority, cabinet or ministerial directives, as well as judicial rulings and case-law precedence).	
	ED 70.AG 17, ED 71.AG 18	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 transfer goods or services fulfill the agreed-upon obligations in the arrangement.	
	ED 70.AG 19, ED 71.AG 20, <a href="#">Agenda Item 6.2.3</a>	Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific. Cabinet or 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 transfer goods or services fulfill the agreed-upon obligations in the arrangement may be enforceable. The key determining factor is that the purchaser each party must be able to enforce the promises made in the entity's binding arrangement. The purchaser Each party must have the ability and authority to compel the entity other party or parties to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.	
	ED 70.AG 18, ED 71.AG 19	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 [draft] Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of performance agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.	
	ED 70.AG 20, ED 71.AG 21	An entity may feel compelled to deliver on the performance obligations in a binding arrangement because of the risk that it might not receive future funding from the other party-purchaser. In general, the ability to reduce or withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the purchaser to provide such funding. However, if the entity was 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 reduction in funding could be considered a valid enforcement mechanism.	

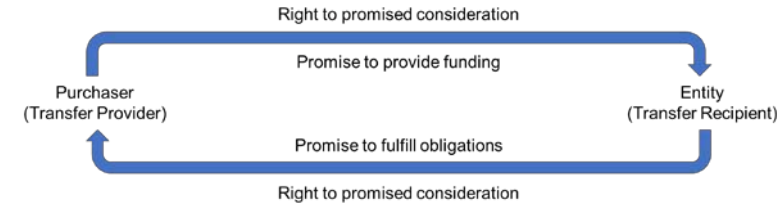
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Purpose	Sources	Draft Guidance	Related Board discussion
	ED 70.AG21, ED 71.AG22	When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply a judgment based on the facts and circumstances. Key factors that may indicate the purchaser would reduce future funding in the event of a breach of promises made in another binding arrangement are the purchaser's ability to reduce future funding and its past history of doing so.	
	ED 70.AG23, ED 71.AG23	A statement of intent or public announcement by a purchaser (e.g., government) 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 a purchaser and an entity (resource recipient). An entity would need to consider whether such a public announcement gives rise to a non-legally binding (constructive) obligation under IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .	
	ED 70.AG24, Board decision	In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations but have not been historically enforced. If past experience with a purchaser indicates that the purchaser never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and may indicate that such terms do not in substance hold the other entity accountable and therefore the arrangement is not considered enforceable. However, if the entity has no experience with the purchaser, or has not previously breached any terms that would prompt the purchaser to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the purchaser would enforce the terms, and therefore the arrangement is considered enforceable. An entity should consider any past history of enforcement as one of the relevant factors in its overall assessment of enforceability and whether the entities can objectively be held accountable to the agreed-upon rights and obligations.	03-E
	Board decision	Some arrangements include a termination for convenience clause without such penalties, where no party in the arrangement is bound to the stated terms and conditions. Such arrangements are not binding arrangements because they are not enforceable.	03-E
Enforceability concept – appropriations	Board decision	In some jurisdictions, appropriations may be included in arrangements as an explicit term or condition (either in writing, orally, or implied through customary practices). Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the transfer provider (which would be similar in substance to a unilateral termination clause without penalty). 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	03-E

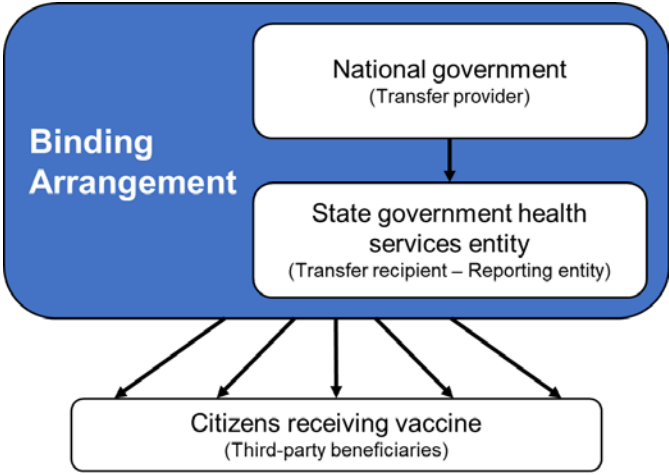
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Purpose	Sources	Draft Guidance	Related Board discussion
		assessment of enforceability, in the context of their specific jurisdiction and the unique terms and conditions of each arrangement.	
	ED 71.AG28	An appropriation is defined in IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> , as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transaction without performance obligations may specify that any future transfer is subject to the appropriation being authorized.	
	ED 71.AG29	In accordance with paragraphs 36-37 [incorporated above], a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer recipient considers substance over form in determining whether the transfer recipient has control of those resources prior to the appropriation being authorized.	
	ED 71.AG30	In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example: <ul style="list-style-type: none"> <li>(d) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a transfer provider;</li> <li>(e) The exercise of that authority has occurred. In essence, a decision has been made by the transfer provider under the approved enabling authority that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and</li> <li>(f) The authority to pay is evidenced by the authorization of an appropriation.</li> </ul>	
	ED 71.AG31	The enabling authority together with the exercise of that authority may be sufficient for a transfer recipient to conclude that it has an enforceable right to resources prior to the authorization of the appropriation. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer recipient recognizes an asset prior to the appropriation being authorized.	
	ED 71.AG32	In other cases, the authorization of the appropriation may need to be considered in establishing when a transfer provider has lost its discretion to avoid proceeding. In such a circumstance, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer recipient shall not recognize an asset prior to the appropriation being authorized.	
At least two-way enforceability	<i>Board decision</i>	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 in the	03-E

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Purpose	Sources	Draft Guidance	Related Board discussion
		<p>arrangement must have their own rights and obligations conferred in the arrangement, and the ability to enforce these rights and obligations.</p>	
	<p>ED 70.AG 13, ED 71.AG 16, ED 70.AG 14, Board decision</p>	<p>That is, at a minimum, the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the purchaser or transfer</p>  <p>provider) must be able to enforce fulfillment of the obligations assumed by the entity receiving the consideration. The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:</p>	03-E

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Purpose	Sources	Draft Guidance	Related Board discussion
	ED 70.AG22, Board decision	<p>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 entity to deliver goods and services because they are not a party to the binding arrangement. However, for these three multi-party arrangements to be within the scope of this [draft] Standard the purchaser must have the ability to force the entity to deliver goods and services to third-party beneficiaries. In these three multi-party arrangements the resource recipient (reporting entity) is not an agent of the purchaser because the resource recipient gains control of the consideration from the purchaser and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram.</p>  <pre> graph TD     subgraph BindingArrangement [Binding Arrangement]         A[National government (Transfer provider)] --&gt; B[State government health services entity (Transfer recipient – Reporting entity)]     end     B --&gt; C[Citizens receiving vaccine (Third-party beneficiaries)] </pre>	03-E
	ED 70.AG 15	In assessing enforceability of an arrangement, the entity considers not only its ability to enforce its right to receive funds related to the fulfilled obligation, but also the purchaser's ability to compel the entity to deliver goods and services that creates the basis for the five-step revenue recognition model provided for in this [draft] Standard fulfill its obligations.	
	ED 71.AG10	Some revenue transactions within the scope of this [draft] Standard may be enforceable, but only create enforceable rights or obligations for one party in the arrangement. These transactions do not satisfy the requirements meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.	

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Purpose	Sources	Draft Guidance	Related Board discussion
<b>Recognition – Binding Arrangements with Performance Obligations</b>			
Five-step model criterion (d) – Economic substance	ED 70.AG26	<p>An entity shall determine whether a transaction has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic substance if:</p> <ul style="list-style-type: none"> <li>(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or</li> <li>(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and</li> <li>(c) The differences in (a) and (b) are significant relative to the fair value of the assets exchanged.</li> </ul>	
	ED 70.AG27	For the purposes of determining whether a transaction has economic substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The results of these analyses may be clear without an entity having to perform detailed calculations.	
	ED 70.AG28	For the purposes of this <del>draft</del> Standard, economic substance includes commercial substance.	
Five-step model criterion (e) – Collectability	ED 70.AG29	In some binding arrangements, entities are compelled by legislation to provide certain goods and services (such as water and electricity) to all citizens, regardless of whether the citizens have the intention or ability to pay for those goods or services. In these circumstances, when payment of the consideration, less any price concession, is not probable for delivery of the good or service to certain groups of citizens, the criterion for identifying a binding revenue arrangement in paragraph 8(e) [incorporated above] is not met.	
	Board decision	A price concession is provided and relatively known by the involved parties at the inception of the binding arrangement, either implicitly or explicitly, and potentially informed by past history with the involved parties. An entity should assess collectability at the inception of the binding arrangement based on the entity's best estimate of the risks associated with the purchaser in the binding arrangement. This assessment at the inception of the binding arrangement may differ from actual consideration collected subsequently as a result of changes in conditions or expectations reflects either impairment (decline from initial circumstances) or recognition of the full consideration (exceeding the expected collection determined at inception). An entity should apply judgment in considering the facts and circumstances upon entering into a binding arrangement to assess the purchaser's ability and intent at inception to pay the expect consideration at a future date.	03-E
	ED 70.AG30	For goods and services provided to citizens in a binding arrangement in exchange for agreed amounts of consideration, where the collection of the consideration, less any price concession, is not probable at the	

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Purpose	Sources	Draft Guidance	Related Board discussion
		inception of the binding arrangement, an entity shall apply paragraphs 13–15 [incorporated above] of this <del>[draft]</del> Standard.	
	ED 70.AG31	This <del>[draft]</del> Standard typically measures revenue based on the transaction price to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, credits, price concessions, incentives, performance bonuses, penalties and similar items, but it is not reduced for impairment losses. However, where an entity is providing goods or services and accepts a lower amount of consideration from the purchaser than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 46 and 51(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 8(e) [incorporated above].	
<b>Basis for Conclusions</b>			
Scope			
Scope of IPSAS [X] (ED 70) – Modification of IFRS 15 for Applicability to the Public Sector	ED 70.BC16	The IPSASB modified the requirements of IFRS 15 to address public sector specific transactions. This included adding the concept of a binding arrangement (which is broader than a contract) to allow for jurisdictions where government and public sector entities cannot enter into legal contracts but do enter into binding arrangements which are in substance the same as contracts.	
	ED 70.BC17, <a href="#">Agenda Item 6.2.3</a>	The IPSASB modified enforceability to include mechanisms that are outside the legal system that are equivalent to legal means. This change was made as some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered “contracts”.	
	ED 70.BC18	Public sector transactions often involve three parties: the purchaser, which provides the consideration; the entity, which receives the consideration and is responsible for the delivery of goods or services; and the third-party beneficiary, which can be individuals or households, receiving those goods or services. While the IASB’s educational materials referred to such three-party arrangements, they were not explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in <del>[draft]</del> IPSAS [X] (ED 70), as three-party transactions are expected to be much more prevalent in the public sector.	
Definition			
Binding arrangement	ED 70 BC24	The IPSASB replaced all references to “contracts” in IFRS 15 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The	

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Purpose	Sources	Draft Guidance	Related Board discussion
replaces "contracts"		IPSASB agreed that binding arrangements, for the purpose of <del>[draft]</del> IPSAS [X] (ED 70), should encompass rights that arise from legislative or executive authority, cabinet or ministerial directives. For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and obligations to both parties in the arrangement. To assist with the expanded concept of binding arrangements, application guidance was added to <del>[draft]</del> IPSAS [X] (ED 70) in paragraphs AG7-AG12 [incorporated above]. As the concept of a contract may still be applicable in the public sector, the IPSASB also retained the definition of contract but specified that a contract is a type of binding arrangement.	
Binding arrangement definition	<i>Board decision</i>	The IPSASB considered responses received in response to the Exposure Drafts (ED) 70 and ED 71 and noted that the majority of respondents supported the use and concept of binding arrangements in the public sector. The IPSASB decided to retain the concept of a binding arrangement as a fundamental concept for revenue accounting.	03-A 03-F
	<a href="#">Agenda Item 6.2.1</a>	The IPSASB also considered that the use and definition of the term binding arrangement in IPSAS [X] (ED 70 or 71). The use and definition of binding arrangement in IPSAS [X] (ED 70 or 71) is conceptually consistent with existing IPSAS and the difference in wording is intentional for the purposes of IPSAS [X] (ED 70 or 71).	June 2021 discussion
Enforceability concept	<i>Board decision</i>	During this discussion, the IPSASB confirmed that enforceability is an integral component of a 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 binding arrangement and hold the parties accountable to the satisfaction of stated obligations.	03-B
		<i>Unenforceable transactions</i>	
	<i>ED 71.BC10</i>	The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needs to be enforceable by the transfer provider. For example, taxpayers do not normally have enforceable rights, so the implied requirements will not give rise to present obligations of the resource recipient.	
	<i>ED 71.BC11</i>	The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.	
		<i>Enforceable transactions</i>	



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Purpose	Sources	Draft Guidance	Related Board discussion
	<i>ED 71.BC12</i>	The IPSASB considered whether it is possible to have an enforceable transaction with a present obligation that was not a performance obligation, as defined in <del>[draft]</del> IPSAS [X] (ED 70). The IPSASB concluded that a present obligation that is not a performance obligation can exist. The present obligation gives rise to a liability because the past event occurs when the transfer provider and transfer recipient enter into a binding arrangement creating enforceable rights and obligations. Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.	
Enforceability concept – appropriations	<i>BC 71.BC15</i>	The IPSASB noted that, in some jurisdictions, a binding arrangement for a revenue transaction without performance obligations might be made subject to authorization of an appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the transfer recipient has no enforceable claim and should not recognize an asset prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation has substance.	
Interdependent right and obligations concept; At least two-way enforceability	<i>Board decision,</i> <a href="#">Agenda Item 6.2.1</a>	The IPSASB also reconfirmed its decision that a binding arrangement includes both rights and obligations, and each party's enforceable right and obligation are interdependent and inseparable. Furthermore, some constituents noted that multi-party arrangements are common in the public sector, where more than two parties in the arrangement each have its own enforceable rights and obligations. The IPSASB acknowledged these multi-party arrangements and decided to revise the definition of a binding arrangement to reflect that at least two parties must each with their own respective enforceable right and obligation in order to meet the definition of a binding arrangement, thereby conferring two-way enforceability of rights and obligations at a minimum.	04-A 03-E June 2021 discussion
At least one present obligation	<i>Board decision</i>	Since a binding arrangement is, by definition, enforceable, and includes both rights and obligations for the parties, the IPSASB concluded that all binding arrangements will include at least one present obligation. In other words, a binding arrangement always includes at least one present obligation because they provide an entity the ability to enforce the stated obligations, and there is there is little or no realistic alternative to avoid the outflows should the other party not adhere to these obligations. The IPSASB confirmed that this is consistent with the definition of a present obligation within the <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the <i>Conceptual Framework</i> ), paragraph 5.15, which stated that	03-A

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Purpose	Sources	Draft Guidance	Related Board discussion
		"obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources."	
<b>Recognition</b>			
Consider appropriate IPSAS for a binding arrangement; In scope of ED 70; In scope of ED 71	<i>Board decision</i>	The IPSASB noted that the title and structure of Step 1 of the five-step model proposed in ED 70, "Identifying the Binding Arrangement", caused confusion for some constituents. The criteria in paragraph 8 [incorporated above] is not intended to identify whether an arrangement is a binding arrangement. An entity should identify a binding arrangement by assessing whether an arrangement meets the definition of a binding arrangement. An entity should consider the criteria in paragraph 8 [incorporated above] when determining if revenue from a binding arrangement with performance obligations should be accounted for using the five-step accounting model in IPSAS [X] (ED 70). The IPSASB decided to reorder the authoritative guidance on binding arrangements and clarify when the five-step model should be considered in accounting for revenue transactions arising from binding arrangements.	03-E
Five step model criteria (ED 70)		<b>Step 1: Identifying the Binding Arrangement</b> <i>Probability of Collection of Consideration to which an Entity is Entitled (Paragraph 8(e))</i>	
	<i>ED 70.BC35</i>	Paragraph 8(e) [incorporated above] is part of the criteria that must be met before an entity can apply the five-step revenue recognition model in <del>draft</del> IPSAS [X] (ED 70). Paragraph 8(e) [incorporated above] requires the collection of consideration to which an entity is entitled to be probable.	
	<i>ED 70.BC36</i>	One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because: (g) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and (h) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration.	
	<i>ED 70.BC37</i>	The IPSASB acknowledged that the probability criterion for certain binding arrangements with purchasers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of the purchaser's ability or intention to pay. As a	

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Purpose	Sources	Draft Guidance	Related Board discussion
		result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.	
	ED 70.BC38	When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 8(e) [incorporated above] without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 8(e) [incorporated above] of [draft] IPSAS [X] (ED 70) are met.	
	ED 70.BC39	The IPSASB decided to retain paragraph 8(e) [incorporated above] because: (a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 7 of [draft] IPSAS [X] (ED 70), paragraph 7 of IPSAS 1, <i>Presentation of Financial Statements</i> , and paragraph 5.29 of the Conceptual Framework; and The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.	
	ED 70.BC40	The IPSASB acknowledged that arrangements an entity is compelled to enter where the collectability of the consideration is in question could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession as described in AG31 (see paragraph BC50).	
	ED 70.BC41	To assist with the application of paragraph 8(e) [incorporated above], the IPSASB added paragraph AG31, which states that when an entity is providing goods or services and accepts a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction price meets the collectability criterion in paragraph 8(e) [incorporated above] and the entity applies the five-step revenue recognition model to the binding arrangement.	
		<i>Recognition of Consideration Received as Revenue when the Criteria in Paragraph 8 are not Met (Amendment of Paragraph 14)</i>	

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Purpose	Sources	Draft Guidance	Related Board discussion
	<i>ED 70.BC42</i>	<p>In IFRS 15, if a transaction does not meet all the criteria for revenue recognition using the five-step revenue recognition model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:</p> <ul style="list-style-type: none"> <li>(a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or</li> <li>(b) The contract has been terminated and the consideration received from the customer is non-refundable.</li> </ul>	
	<i>ED 70.BC43</i>	<p>In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized, even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB amended paragraph 14(a) of <del>draft</del> IPSAS [X] (ED 70), so that an entity shall recognize the consideration received as revenue when the entity has transferred the goods or services to which the collected consideration relates, the entity has no obligation to transfer additional goods or services for the collected consideration, and the consideration received is non-refundable.</p>	
		<i>Overall Impact from the Application of Paragraphs 8(e), 14 and AG31</i>	
	<i>ED 70.BC44</i>	<p>The IPSASB noted that the application of paragraphs 8(e) [incorporated above], 14 and AG31 would lead to the following possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of this <del>draft</del> Standard are applied:</p> <ul style="list-style-type: none"> <li>(a) Criterion 8(e) [incorporated above] is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step revenue recognition model and no specific disclosures regarding compelled transactions are required. As required by paragraph 12, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 8 [incorporated above].</li> <li>(b) Criterion 8(e) [incorporated above] is met, but only after the transaction price has been reduced for the implicit price concession as noted in paragraph AG31 [incorporated above] – In this scenario, the binding arrangement will be accounted for using the five-step revenue recognition model but at the reduced transaction price. Specific disclosures regarding</li> </ul>	

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Purpose	Sources	Draft Guidance	Related Board discussion
		<p>compelled transactions will be required by paragraph 120. (See paragraph BC50 below.)</p> <p>Similar to the scenario in paragraph BC44(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by paragraph 12 [incorporated above] to reassess if the binding arrangement continues to meet all the criteria in paragraph 8(e) [incorporated above].</p> <p>(c) Criterion 8(e) [incorporated above] is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernable pattern of collection based on past history. In this scenario, paragraph 13 [incorporated above] requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 8 [incorporated above]. Any consideration received is subject to the revenue recognition criteria in paragraphs 14 and 15 [incorporated above]. Specific disclosures regarding compelled transactions will be required by paragraph 120.</p> <p>(d) Criterion 8(e) [incorporated above] is not met, and no consideration has been collected – In this scenario, paragraph 13 [incorporated above] requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 8 [incorporated above]. Specific disclosures regarding compelled transactions will be required by paragraph 120.</p> <p>Based on the above, the IPSASB was satisfied that paragraphs 14 [incorporated above], 120 and AG31 [incorporated above] address the concerns discussed in BC40 [incorporated below], BC43 [incorporated below] and BC50.</p>	
<b>Application Guidance</b>			
Enforceability concept	Board decision	<p>Some respondents to ED 70 and ED 71 noted that the accounting guidance mentioned several mechanisms or factors of enforceability, but were unclear on whether certain factors are considered more demonstrative than others. The IPSASB considered these comments and debated whether the presence or absence of specific factors, such as past history of enforceability, demonstrates the enforceability of a binding arrangement. The IPSASB concluded that the impact of specific factors on the assessment of enforceability will be specific to each jurisdiction and the respective binding arrangement. In other words, the principle related to enforceability of a binding arrangement remains appropriate but acknowledge that application of this principle in practice may vary depending on the relevant mechanisms for the entity.</p>	03-C

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Purpose	Sources	Draft Guidance	Related Board discussion
	<i>Board decision</i>	The IPSASB also confirmed that the assessment of enforceability is based on the ability to enforce, rather than the probability of enforcement, and that this assessment is to be completed when the entity first enters into the arrangement.	04-B
	<i>Board decision</i>	Based on these discussions, the IPSASB decided to revise guidance to emphasize that an entity should assess all relevant factors at the transaction date to determine whether the parties in the arrangement have the ability to enforce the rights and obligations in the arrangement. Judgment is required to determine which factors of enforceability are more demonstrative in the respective jurisdiction and binding arrangement. The IPSASB decided to provide additional authoritative guidance on the concept of enforceability in a binding arrangement.	03-C 04-B
	<i>ED 70.BC51</i>	The IPSASB noted that some binding arrangements are enforceable not by legal means but by equivalent enforcement mechanisms. Paragraphs AG19-AG21 [incorporated above] of <del>draft</del> IPSAS [X] (ED 70) discusses the equivalent enforcement mechanisms.	
	<i>ED 70.BC52</i>	The CP, <i>Accounting for Revenue and Non-Exchange Expenses</i> , proposed the following as possible enforcement mechanisms by equivalent means: (a) Legislation; (b) Cabinet and ministerial decisions; and (c) Reduction of future funding.	
	<i>ED 70.BC53</i>	The IPSASB agreed that cabinet and ministerial decisions, including executive authority, were subsets of legislation and may in some circumstances be valid enforcement mechanisms.	
	<i>ED 70.BC54</i>	Respondents to the CP were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the purchaser had a present obligation to provide future funding in another binding arrangement. Without this binding arrangement and present obligation, the threat of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.	
	<i>ED 70.BC55</i>	The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.	
	<i>ED 70.BC56</i>	In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.26 of the Conceptual Framework states	

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Purpose	Sources	Draft Guidance	Related Board discussion
		“economic coercion, political necessity or other circumstances may give rise to situations where although the public sector entity is not legally obligated to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation”.	
	ED 70.BC57	However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of <del>[draft]</del> IPSAS [X] (ED 70) because a non-legally binding obligation as cited in the Conceptual Framework is binding only for the party to whom the obligation exists, whereas a binding arrangement as used in <del>[draft]</del> IPSAS [X] (ED 70) requires both parties to agree to both the enforceable rights and obligations within that agreement.	
	ED 70.BC58	The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g. a general policy statement or announcement following a natural disaster) would create an enforceable binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for by the government under IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .	
Five-step model criterion (e) – Collectability	Board decision	One of the criteria for a revenue transaction with performance obligations to be accounted for using the five-step model in IPSAS [X] (ED 70) is the entity's probable collection of consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser or third-party beneficiary. The IPSASB decided to provide additional application guidance to address some constituent comments on how an entity should consider implicit price concessions in the assessment of collectability, and use its best estimate of risks associated with the purchaser at the inception of the binding arrangement.	03-E
<b>Illustrative Examples</b>			
<b>Enforceability</b>			
Example 4 – enforceability through <del>non-legal</del> legal equivalent means	ED 70.IE13	Example 4 illustrates the requirements of paragraphs AG13-AG24 [incorporated above] of <del>[draft]</del> IPSAS [X] (ED 70) on enforceability by a mechanism <del>other than</del> that is equivalent to, but is not, legal means, i.e., by means other than compulsion by a jurisdiction's legal system to comply with the terms of the binding arrangement with purchasers.	
		<del>Example 4—Enforceability by Mechanism other than</del> through means equivalent to Legal Means	

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Purpose	Sources	Draft Guidance	Related Board discussion
	ED 70.IE14	Pursuant to a ministerial directive (see AG19 [incorporated above] of <del>draft</del> IPSAS [X] (ED 70)), a state government signed a memorandum of understanding with the Department of Public Works (Public Works) to build a government office building. The memorandum is not legally binding on either of the parties, does not impose a refund obligation for Public Works in the event that it fails to perform under the terms of the memorandum, or refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the state government and Public Works relied upon it during their contract negotiations. Public Works commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Public Works has reported to the state government on its first month of work, and the state government has accepted the work performed to date.	
	ED 70.IE15	Given the parties' reliance upon the memorandum of understanding, the fact that Public Works has performed construction services in accordance with the terms of the memorandum, and the fact that the work performed to date has been reported to and accepted by the state government, the memorandum has become enforceable based on the concept of promissory estoppel. That is, the state government has the right to enforce Public Works to fulfill the promises in the memorandum or seek redress should these promises are not fulfilled. As a result, the memorandum is considered enforceable despite it not being legally binding.	
<b>Recognition</b>			
Example 5 – collectability		<i>Example 5—Collectability of the Consideration</i>	
	ED 70.IE17	A local government has a portfolio of properties that are rented below-market prices to qualifying residents (Residents). After a number of years, a Resident is able to purchase the unit as part of a rent-to-own housing program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the Resident. The program allows the Residents to pay the price over a period of 20-years, but once Residents have reached the age when they start to collect their superannuation, payments may cease depending on the Resident's level of income at that time. Upon the inception of the binding arrangement to purchase the unit, a Resident is required to pay a non-refundable deposit of CU5,000 and enter into a long-term financing agreement with the local government for the remaining balance of the promised consideration. In addition, the Resident obtains control of the building at the inception of the binding arrangement.	
	ED 70.IE18	As part of this rent-to-own program, the local government enters into a binding arrangement with a Resident for the sale of a residential unit with a market price of CU400,000. Up to the time of the purchase, the Resident had cumulatively paid CU150,000 in rent to the local government, so the purchase price for the unit	



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Purpose	Sources	Draft Guidance	Related Board discussion
		was CU250,000. The Resident pays the non-refundable deposit of CU5,000 at the inception of the binding arrangement and enters into a long-term financing agreement with the local government for the remaining CU245,000 of the promised consideration. However, the Resident is only expected to pay CU180,000 (including the CU5,000 deposit) until they begin to collect their superannuation, and at that time, their expected level of income will result in payments ceasing. The Resident obtains control of the unit at the inception of the binding arrangement and payment of the CU5,000 deposit.	
	ED 70.IE19	In assessing whether the binding arrangement meets the criteria in paragraph 8 [incorporated above] of [draft] IPSAS [X] (ED70), the local government concludes that the criterion in paragraph 8(e) [incorporated above] of [draft] IPSAS [X] (ED 70) is not met for the full CU250,000 because it is not probable that it will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the local government observes that the Resident may only pay up to CU180,000 based on the terms of the program.	
	ED 70.IE20	Because the criteria in paragraph 8 [incorporated above] of [draft] IPSAS [X] (ED 70) are not met, the local government applies paragraphs 13-15 [incorporated above] of [draft] IPSAS [X] (ED 70) to determine the accounting for the non-refundable deposit of CU5,000. The local government observes that the events described in paragraph 14(a) [incorporated above] have occurred—that is, the local government has transferred control of the building to the Resident, and the local government has no obligation to transfer additional goods or services for the CU5,000 payment received, and the payment is non-refundable. Consequently, in accordance with paragraph X, the local government recognizes the non-refundable CU5,000 payment as revenue upon receipt.	
Example 6 – collectability		<i>Example 6—Consideration is not the Stated Price—Implicit Price Concession</i>	
	ED 70.IE21	A government pharmaceutical agency (the Agency) provides 1,000 units of a prescription drug to a hospital for promised consideration of CU1 million. The price of the drugs is regulated, so the Agency has no discretion on pricing. The Agency expects that it will not be able to collect from the hospital the full amount of the promised consideration due to a medical crisis occurring in the region which is diverting the hospital's resources.	
	ED 70.IE22	When assessing whether the criterion in paragraph 8(e) [incorporated above] of [draft] IPSAS [X] (ED 70) is met, the Agency also considers paragraphs 46 and 51(b) of [draft] IPSAS [X] (ED 70). Based on the assessment of the facts and circumstances, the Agency determines that it expects to provide a price concession and accept a lower amount of consideration from the hospital. Accordingly, the Agency	

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Purpose	Sources	Draft Guidance	Related Board discussion
		concludes that the transaction price is not CU1 million and, therefore, the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.	
	ED 70.IE23	The Agency considers the hospital's ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CU400,000 from the hospital. Consequently, the Agency concludes that the criterion in paragraph 8(e) [incorporated above] of [draft] IPSAS [X] (ED 70) is met based on an estimate of variable consideration of CU400,000. In addition, on the basis of an evaluation of the binding arrangement terms and other facts and circumstances, the Agency concludes that the other criteria in paragraph 8 [incorporated above] of [draft] IPSAS [X] (ED 70) are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction price of CU400,000, in accordance with the requirements in [draft] IPSAS [X] (ED 70).	
Example 7 – collectability		<i>Example 7—Implicit Price Concession</i>	
	ED 70.IE24	A government hospital provides medical services to an uninsured patient in the emergency room. The hospital is required by law to provide medical services to all emergency room patients. Because of the patient's condition upon arrival at the hospital, the hospital was compelled under legislation to provide the services immediately and, therefore, before the government hospital can determine whether the patient is committed to perform its obligations under the binding arrangement in exchange for the medical services provided. Consequently, the binding arrangement does not meet the criteria in paragraph 8 [incorporated above] of [draft] IPSAS [X] (ED 70) and, in accordance with paragraph 13 [incorporated above] of [draft] IPSAS [X] (ED 70), the hospital will continue to assess its conclusion based on updated facts and circumstances.	
	ED 70.IE25	After providing services, the hospital obtains additional information about the patient including a review of the services provided, standard rates for such services and the patient's ability and intention to pay the hospital for the services provided. During the review, the hospital notes its standard rate for the services provided in the emergency room is CU10,000. The hospital also reviews the patient's information and to be consistent with its policies designates the patient to a purchaser class based on the hospital's assessment of the patient's ability and intention to pay	
	ED 70.IE26	Before reassessing whether the criteria in paragraph 8 [incorporated above] of [draft] IPSAS [X] (ED 70) have been met, the hospital considers paragraphs 46 and 51(b) of [draft] IPSAS [X] (ED 70). Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the hospital expects to accept a lower amount of consideration in exchange for the services. Accordingly, the hospital	

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Purpose	Sources	Draft Guidance	Related Board discussion
		concludes that the transaction price is not CU10,000 and, therefore, the promised consideration is variable. The hospital reviews its historical cash collections from this purchaser class and other relevant information about the patient. The hospital estimates the variable consideration and determines that it expects to collect CU1,000.	
	ED 70.IE27	In accordance with paragraph 8(e) [incorporated above] of [draft] IPSAS [X] (ED 70), the hospital evaluates the patient's ability and intention to pay (i.e., the credit risk of the patient). On the basis of its collection history from patients in this purchaser class, the hospital concludes it is probable that the hospital will collect CU1,000 (which is the estimate of variable consideration). In addition, on the basis of an assessment of the binding arrangement terms and other facts and circumstances, the hospital concludes that the other criteria in paragraph 8 [incorporated above] of [draft] IPSAS [X] (ED 70) are also met. Consequently, the hospital accounts for the binding arrangement with the patient, at a transaction price of CU1,000, in accordance with the requirements in [draft] IPSAS [X] (ED 70).	
Example 8 – binding arrangements in scope of ED 70		<i>Example 8—Reassessing the Criteria for Identifying a Binding Arrangement</i>	
	ED 70.IE28	The Department of Natural Resources (the Department) issues a permit to mine minerals to a private sector mining company in exchange for a royalty based on the amount of minerals extracted. At the inception of the binding arrangement, the binding arrangement meets all the criteria in paragraph 8 [incorporated above] of [draft] IPSAS [X] (ED 70) and the Department accounts for the binding arrangement with the mining company in accordance with the requirements in [draft] IPSAS [X] (ED 70). The Department recognizes revenue when the mining company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG111 of [draft] IPSAS [X] (ED 70).	
	ED 70.IE29	Throughout the first year of the binding arrangement, the mining company provides quarterly extraction reports and pays within the agreed-upon period.	
	ED 70.IE30	During the second year of the binding arrangement, the mining company continues to extract minerals from the property, but its financial condition declines. The mining company's current access to credit and available cash on hand are limited. The Department continues to recognize revenue on the basis of the mining company's extraction throughout the second year. The mining company pays the first quarter's royalties but does not pay the full royalty payments for the usage of the permit in Quarters 2–4. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, <i>Financial Instruments</i> .	
	ED 70.IE31	During the third year of the binding arrangement, the mining company continues to use the permit issued by the Department. However, the Department learns that the mining company has lost access to credit and its	

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Purpose	Sources	Draft Guidance	Related Board discussion
		<p>major customers, and thus the company's ability to pay significantly deteriorates. The Department therefore concludes that it is unlikely that the mining company will be able to make any further royalty payments for ongoing usage of the mining permit. As a result of this significant change in facts and circumstances, in accordance with paragraph 12 [incorporated above] of <del>[draft]</del> IPSAS [X] (ED 70), the Department reassesses the criteria in paragraph 8 [incorporated above] of <del>[draft]</del> IPSAS [X] (ED 70) and determines that they are not met because it is no longer probable that the Department will collect the consideration to which it will be entitled. Accordingly, the Department does not recognize any further revenue associated with the mining company's future usage of its permit. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, <del>Financial Instruments</del>.</p>	

## Supporting Document 2 – Revised Guidance Related to the Definition of Binding Arrangements (Transfer Expenses)

This Supporting Document presents the revised guidance proposed by staff for the Transfer Expenses standard, as referenced in preceding Agenda Items (for the definition of binding arrangements **only**). It is comprised of the following:

1. **Existing guidance** – Staff compiled existing guidance originally proposed in ED 70, ED 71 and ED 72 pertaining to the definition of binding arrangements;
2. **IPSASB decisions to date, and guidance proposed for Revenue standards** – Staff have added new or revised guidance to reflect IPSASB decisions on specific principles related to binding arrangements (during both Revenue and Transfer Expense meetings to date). This guidance is generally based on the guidance proposed for the Revenue standard(s) in [Agenda Item 6.3.1](#). Decisions are summarized below:

Meeting	Change ID	Decision on Principles
April 2021	<b>04-A</b>	Consider an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitute a single asset or liability.
April 2021	<b>04-B</b>	Retain binding arrangement as a fundamental concept for transfer expense accounting. Principles related to binding arrangements should be consistent [with the revenue project]. Identification and assessment of a binding arrangement is from the perspective of the entity.
April 2021	<b>04-C</b>	Confirm that, in a binding arrangement, the transfer provider and the transfer recipient will each have at least one present obligation.
April 2021	<b>04-D</b>	Confirm that enforceability can be demonstrated by various mechanisms in transfer expense accounting, and all relevant factors should be considered in that analysis.

3. **IPSASB instructions** – Staff propose new or revised guidance and relocated some existing guidance to reflect IPSASB instructions relating to binding arrangements (during Revenue and Transfer Expense meetings to date). Instructions are summarized below:

Meeting	Change ID	Instructions
April 2021	<b>04-E</b>	Clarify through additional guidance that each party in a binding arrangement would have at least one present obligation.
April 2021	<b>04-F</b>	Provide explicit guidance on that assessment of enforceability when an entity first enters into an arrangement is based on the ability to enforce and not probability of enforcement at inception.

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The proposed guidance is presented in the following format for easier review. This guidance is still in draft and is subject to subsequent revisions.

Guidance type			
Section			
Purpose of guidance	Source (existing ED guidance, Board decision, or staff proposal)	[Proposed new or revised guidance for IPSAS [X], <i>Transfer Expenses</i> ] [Grey – in cases where guidance remains relatively unchanged from existing source] <b>[Bold - main principles (per Framework preface paragraph 12)]</b>	Related Board discussion (Change ID)

Purpose	Sources	Draft Guidance	Related Board discussion
<b>Core Text</b>			
Definition			
Binding arrangement definition	ED 70.7, <i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	<b>For the purposes of this Standard, a <u>binding arrangement</u> is an arrangement that confers both enforceable rights and obligations on two or more parties to the arrangement. A <u>contract</u> is a type of binding arrangement (paragraphs AG9-AG12 [AGs related to definition of binding arrangement are incorporated below] provide additional guidance).</b>	04-B 04-C
Forms of binding arrangements	ED 72.15, <i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by a transfer provider'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 a transfer provider (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). A transfer provider shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.	04-D
Enforceability concept	ED 72.15, <i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	<del>A binding arrangement creates both enforceable rights and obligations on both parties to the arrangement</del> For an arrangement to be binding, it must be enforceable through legal or equivalent means. <del>Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system.</del> 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 binding arrangement and hold the parties accountable to the satisfaction of stated obligations.	04-D 04-F
	ED 71.22, ED 71.24,	In determining whether an arrangement is enforceable, the transfer provider considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based	04-F

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Purpose	Sources	Draft Guidance	Related Board discussion
	<i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	on an entity's ability to enforce the satisfaction of the other parties' stated obligations. No account is taken of the probability that one or more parties to the arrangement may not enforce the satisfaction of the other parties' stated obligations even if entitled to do so.	
Enforceability concept – appropriations	ED 72.98	Where a binding arrangement specifies that the resources to be transferred to a transfer recipient by a transfer provider are subject to an appropriation being authorized, the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.	
	ED 72.99	This limitation (that the resources to be transferred are subject to the appropriation being authorized) does not have substance where the transfer recipient can establish an enforceable right to those resources (and as a consequence the transfer provider has a present obligation to transfer the resources) before the appropriation is authorized. Paragraphs AG98–AG102 provide additional guidance on appropriations.	
Interdependent right and obligations concept; At least two-way enforceability	<i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. The entity's enforceable right and obligation within the binding arrangement are interdependent and inseparable. At least one other party involved in the binding arrangement also has an interdependent right and obligation to which they are held accountable.	04-A
At least one present obligation	<i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	A binding arrangement has at least one present obligation because its enforceability holds the entity accountable to fulfill the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the outflow of resources.	04-C 04-E
Wholly unfulfilled binding arrangements [Amendments subject to IPSASB decisions on the recognition of	ED 72.17, <i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	For the purpose of applying this [draft] Standard, an arrangement is not a binding arrangement <del>does not exist</del> if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed unfulfilled binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed unfulfilled if both of the following criteria are met: (a) The transfer provider has not yet paid, and is not yet obligated to pay, consideration to the transfer recipient in exchange for promised goods or services to be provided to third-party beneficiaries; and (b) The transfer recipient has not yet transferred any promised goods or services to a third-party beneficiary fulfilled any of its stated obligations in the binding arrangement.	

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Purpose	Sources	Draft Guidance	Related Board discussion
transfer expenses.]	ED 72.94, Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> )	For the purpose of applying this [draft] Standard, where an arrangement for a transfer expense without performance obligations is to be made under not a binding arrangement, the transfer expense without performance obligations does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed unfulfilled binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed unfulfilled if both of the following criteria are met: <ul style="list-style-type: none"> <li>(a) The transfer provider has not yet transferred, and is not yet obligated to transfer, any resources to the transfer recipient; and</li> <li>(b) The transfer recipient has not yet performed fulfilled any activities that it agreed to perform as part of the binding arrangement.</li> </ul>	
Further guidance	ED 72.13	Paragraphs AG26 and AG27 provide additional guidance on binding arrangements.	
<b>Application Guidance</b>			
<b>Definition – Binding arrangement</b>			
Binding arrangement definition	ED 72.AG9, Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> )	A binding arrangement, which is defined in [draft] IPSAS [X] (ED 70), <i>Revenue with Performance Obligations</i> . The [draft] Standard relies on the definition of a binding arrangement, being an arrangement that confers both enforceable rights and obligations on both two or more parties to the arrangement, is a fundamental concept for transfer expenses accounting. In the public sector an arrangement is enforceable when all the parties the transfer provider and the transfer recipient are both able to enforce their respective rights and obligations through legal or equivalent means.	04-B
Forms of binding arrangements	ED 72.AG 13	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.	
<b>Definition – Enforceability</b>			
Enforceability concept	ED 72.AG 14, Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> )	To be considered a binding arrangement for the purposes of this [draft] Standard, the The interdependent rights and obligations in these a binding arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG15–AG23). 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 binding	04-A



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Purpose	Sources	Draft Guidance	Related Board discussion
		arrangement and hold the involved parties accountable to the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable when it first enters into the arrangement (i.e., at inception), and this assessment should be based on whether the entity has the ability to enforce, rather than the probability of enforcement.	
	ED 72.AG 10, ED 72.AG 11, Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> ), <a href="#">Agenda Item 6.2.3</a>	<del>There are</del> Since binding arrangements and enforcement of such arrangements 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, <del>where</del> public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where 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 transfer provider 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 transfer provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering both the legal and equivalent means in which the involved parties enforce each the respective rights and obligations under the binding arrangement.	04-B
	EG 72.AG 12	<del>A transfer provider considers the substance rather than the legal form of an arrangement in determining whether it is an enforceable binding arrangement.</del> 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 through legal or equivalent means if the agreement includes: <ul style="list-style-type: none"> <li>(c) Distinct rights and obligations for both the transfer provider and the transfer recipient each involved party; and</li> <li>(d) Remedies for <del>non-performance</del> non-completion by either party which can be enforced by the other party through legal or equivalent means.</li> </ul>	04-B
	ED 72.AG 15 [Amendments subject to IPSASB decisions on the	A key characteristic of a binding arrangement is the ability of <del>both parties</del> 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 transfer provider) must be able to enforce fulfillment of the obligations assumed by the transfer recipient.	

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Purpose	Sources	Draft Guidance	Related Board discussion
	recognition of transfer expenses.]		
	<a href="#">Agenda Item 6.2.3</a>	When an entity assesses the enforceability of a binding arrangement, the entity should consider how the identified mechanisms of enforceability impose implicit and explicit consequences on any party or parties that do not fulfill their agreed-upon obligation(s) in the binding arrangement, through legal or equivalent means. 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 to fulfilling their stated obligation(s) in cases of non-completion, by either compelling a non-compliant party to satisfy their stated obligations or face consequences, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.	June 2021 discussion
	ED 72.AG 16, Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> ), <a href="#">Agenda Item 6.2.3</a>	<del>Legal</del> Enforceability arises from the compulsion by a legal system, comprising 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 with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which through equivalent means (laws and regulations, includes including legislation, executive authority, cabinet or ministerial directives, as well as judicial rulings and case law precedence).	
	ED 72.AG 17, Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> )	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 a transfer recipient to transfer the promised goods or services to a third-party beneficiary, or directing a transfer provider to transfer the promised consideration an entity to fulfill the agreed-upon obligations in the arrangement.	
	ED 72.AG 19, Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> ), <a href="#">Agenda Item 6.2.3</a>	<del>Other forms of enforceability by 'equivalent means' may also exist in the public sector and may be jurisdictionally specific.</del> 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 a transfer recipient an entity controlled by the government to transfer goods or services to third-party beneficiaries fulfill the agreed-upon obligations in the arrangement may be enforceable. Similarly, a directive given by a minister or government department to a transfer provider controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party or parties to	

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Purpose	Sources	Draft Guidance	Related Board discussion
		fulfil the promises established within the arrangement or to seek redress should those promises not be fulfilled.	
	ED 72.AG 18, <i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	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 <del>draft</del> Standard. However, if the use of sovereign rights were detailed in the binding arrangement as a means of enforcing the satisfaction of performance agreed-upon obligations by an entity this may result in a valid enforcement mechanism.	
	ED 72.AG20	A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the transfer provider. In general, the transfer provider'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 <del>draft</del> Standard because there is no present obligation on the transfer provider 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.	
	ED 72.AG21	When determining if a reduction of future funding would be an enforcement mechanism, the transfer provider shall apply judgment based on the facts and circumstances.	
	ED 72.AG23	A statement of intent or public announcement by a transfer provider 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 <del>draft</del> Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient under which both parties have rights and obligations. A transfer provider considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .	
	<i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	Some arrangements include a termination for convenience clause without such penalties, where no party in the arrangement is bound to the stated terms and conditions. Such arrangements are not binding arrangements because they are not enforceable.	04-B
Enforceability concept – appropriations	<i>Proposed revenue guidance (Agenda Item 6.3.1)</i>	In some jurisdictions, appropriations may be included in arrangements as an explicit term or condition (either in writing, orally, or implied through customary practices). Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion	04-B

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Purpose	Sources	Draft Guidance	Related Board discussion
		of the transfer provider (which would be similar in substance to a unilateral termination clause without penalty). 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.	
	ED 72.AG98	An appropriation is defined in IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> , as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being authorized.	
	ED 72.AG99	In accordance with paragraphs 98-99 [incorporated above], a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.	
	ED 72.AG100	In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example: <ul style="list-style-type: none"> <li>(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a transfer provider;</li> <li>(b) The exercise of that authority has occurred. In essence, the transfer provider has taken a decision under the approved enabling authority that clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the transfer provider has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and</li> </ul> The authority to pay is evidenced by the authorization of an appropriation.	
	ED 72.AG101	The enabling authority, together with the exercise of that authority, may be sufficient for a transfer provider to conclude that the transfer recipient has an enforceable right to those resources, and that the transfer provider consequently has a present obligation to transfer the resources, prior to the authorization of the appropriation. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer provider recognizes a liability and an expense for future transfers prior to the appropriation being authorized.	

## Agenda Item 6.3.2

Purpose	Sources	Draft Guidance	Related Board discussion
	ED 72.AG 102	In other cases, the authorization of the appropriation may determine when a transfer provider has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer provider shall not recognize a liability and an expense for the transfer prior to the appropriation being authorized.	
At least two-way enforceability	Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> )	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 in the arrangement must have their own rights and obligations conferred in the arrangement, and the ability to enforce these rights and obligations.	04-B
	Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> )	That is, at a minimum, the transfer provider must be able to enforce fulfillment 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:	04-B
		<pre> graph TD     P["Purchaser (Transfer Provider)"] -- "Right to promised consideration Promise to provide funding" --&gt; E["Entity (Transfer Recipient)"]     E -- "Promise to fulfill obligations Right to promised consideration" --&gt; P </pre>	
	ED 72.AG22 [Amendments subject to IPSASB decisions on the recognition of transfer expenses.]	For the purposes of this [draft] Standard, transfer expenses with performance obligations involve three-party arrangements—transfer provider (the reporting entity in this [draft] Standard), transfer recipient and third-party beneficiaries. The t Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in three 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. However, for these three multi-party arrangements to be classified as transfer expenses with performance obligations, the transfer provider must have the ability to force the transfer recipient to deliver goods and services to third-party beneficiaries. In these three multi-party arrangements the transfer recipient is not an agent of the transfer provider because the transfer recipient gains control of the consideration from the transfer provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram.	03-E

## Agenda Item 6.3.2

Purpose	Sources	Draft Guidance	Related Board discussion
		<pre> graph TD     A["National government (Transfer provider – Reporting entity)"] --&gt; B["State government health services entity (Transfer recipient)"]     B --&gt; C["Citizens receiving vaccine (Third-party beneficiaries)"]     subgraph "Binding Arrangement"         A         B     end </pre>	
Enforceability concept – appropriations	Proposed revenue guidance ( <a href="#">Agenda Item 6.3.1</a> )	In some jurisdictions, appropriations may be included in arrangements as an explicit term or condition (either in writing, orally, or implied through customary practices). Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the transfer provider (which would be similar in substance to a unilateral termination clause without penalty). 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.	04-B
	ED 72.AG98	An appropriation is defined in IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> , as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being authorized.	
	ED 72.AG99	In accordance with paragraphs 98-99 [incorporated above], a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. In such circumstances, the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.	
	ED 72.AG100	In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:	

## Agenda Item 6.3.2

Purpose	Sources	Draft Guidance	Related Board discussion
		<p>(c) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a transfer provider;</p> <p>(d) The exercise of that authority has occurred. In essence, the transfer provider has taken a decision under the approved enabling authority that clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the transfer provider has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and</p> <p>(e) The authority to pay is evidenced by the authorization of an appropriation.</p>	
	ED 72.AG 101	The enabling authority, together with the exercise of that authority, may be sufficient for a transfer provider to conclude that the transfer recipient has an enforceable right to those resources, and that the transfer provider consequently has a present obligation to transfer the resources, prior to the authorization of the appropriation. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) does not have substance, and the transfer provider recognizes a liability and an expense for future transfers prior to the appropriation being authorized.	
	ED 72.AG 102	In other cases, the authorization of the appropriation may determine when a transfer provider has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation being authorized) has substance, and the transfer provider shall not recognize a liability and an expense for the transfer prior to the appropriation being authorized.	

## Supporting Document 3 – Updated Project Plans

The following updated project plans summarize the progress to date on the Revenue and Transfer Expense projects as of June 2021, and are provided for reference purposes. Papers presented in this Agenda Item are noted in green. The order of papers to be presented at future Board discussions is subject to change based on progress and Board discussions.

**Table 1: Revenue Project Plan**

#	Issue	Related overarching themes	Principle-Related Paper	Non-Principle-Related or Drafting Paper
1	Options to Present Proposed Revenue Guidance	<ul style="list-style-type: none"> <li>Interrelation between EDs</li> </ul>	<a href="#">March Agenda Item 5.2.3</a>	<i>n/a</i>
2	Clarifying Binding Arrangements	<ul style="list-style-type: none"> <li>Interrelation between EDs</li> <li>Additional guidance</li> </ul>	<a href="#">March Agenda Item 5.2.4</a>	<a href="#">Agenda Item 6.2.1</a> , and <a href="#">Agenda Item 6.3.1</a>
3	Distinguishing Revenue from Performance Obligations as a Separate Type of Revenue	<ul style="list-style-type: none"> <li>Interrelation between EDs</li> <li>Application in Practice</li> </ul>	<a href="#">March Agenda Item 5.2.5</a>	<i>pending</i>
4	Transactions with Components within the Scope of Both Standards	<ul style="list-style-type: none"> <li>Interrelation between EDs</li> <li>Application in Practice</li> </ul>	<a href="#">March Agenda Item 5.2.6</a>	<i>pending</i>
5	Existence of a Liability in a Binding Revenue Arrangement without Performance Obligations	<ul style="list-style-type: none"> <li>Other technical comments</li> </ul>	<a href="#">March Agenda Item 5.2.7</a>	<i>pending</i>
6	How Enforceability is Exercised	<ul style="list-style-type: none"> <li>Additional guidance</li> </ul>	<a href="#">Agenda Item 6.2.3</a>	<a href="#">Agenda Item 6.3.1</a>
7	Revising and Applying the Guidance on the Definition of a Liability	<ul style="list-style-type: none"> <li>Other technical comments</li> </ul>	<a href="#">Agenda Item 6.2.4</a>	<i>pending</i>
8	Revising the Illustrative Flowchart (reflecting Board decisions to date)	<ul style="list-style-type: none"> <li>Additional guidance</li> </ul>	<i>n/a</i>	<i>pending</i>
9	Accounting for non-contractual receivables	<ul style="list-style-type: none"> <li>Other technical comments</li> </ul>	<i>pending</i>	<i>pending</i>
10	Other technical comments	<ul style="list-style-type: none"> <li>Other technical comments</li> </ul>	<i>n/a</i>	<i>pending</i>
11	Reassess existing disclosures and consider any additional disclosures	<ul style="list-style-type: none"> <li>Extent of disclosures</li> </ul>	<i>pending</i>	<i>pending</i>
12	Other practical considerations	<ul style="list-style-type: none"> <li>Application in practice</li> </ul>	<i>n/a</i>	<i>pending</i>
13	Clarify specified activities and eligible expenditures	<ul style="list-style-type: none"> <li>Additional guidance</li> <li>Other technical comments</li> </ul>	<i>pending</i>	<i>pending</i>
14	Reassess or clarify existing definitions (e.g., performance obligation, revenue, income)	<ul style="list-style-type: none"> <li>Additional guidance</li> </ul>	<i>n/a</i>	<i>pending</i>
15	Clarify or enhance existing proposed guidance	<ul style="list-style-type: none"> <li>Additional guidance</li> </ul>	<i>n/a</i>	<i>Pending</i>
16	Add additional guidance	<ul style="list-style-type: none"> <li>Additional guidance</li> </ul>	<i>n/a</i>	<i>pending</i>
17	Consider existing or additional examples	<ul style="list-style-type: none"> <li>Additional guidance</li> </ul>	<i>n/a</i>	<i>pending</i>
18	Appropriate titles of the future IPSAS on revenue	<ul style="list-style-type: none"> <li>Interrelation between EDs</li> </ul>	<i>n/a</i>	<i>pending</i>
19	Amendments to Other IPSAS	<ul style="list-style-type: none"> <li><i>n/a</i></li> </ul>	<i>n/a</i>	<i>pending</i>
20	Communications for the Release of the Final Standard(s)	<ul style="list-style-type: none"> <li><i>n/a</i></li> </ul>	<i>n/a</i>	



## Agenda Item 6.3.3

**Table 2: Transfer Expenses Project Plan**

#	Issue	Related overarching themes	Principle-Related Paper	Non-Principle-Related or Drafting Paper
1	<b>Application of the Executory Contract Approach</b>	<ul style="list-style-type: none"> <li>• Interrelation between EDs</li> <li>• Additional guidance</li> </ul>	<a href="#">April Agenda Item 1.2.3</a>	<i>pending</i>
2	<b>Binding arrangements (i.e., enforceability in the context of transfer expense accounting)</b>	<ul style="list-style-type: none"> <li>• Additional guidance</li> </ul>	<a href="#">April Agenda item 1.2.2, and Agenda Item 6.2.2</a>	<a href="#">Agenda Item 6.3.2</a>
3	<b>What gives rise to an asset for transfer provider (i.e., initial recognition, SA and EE considerations)</b>	<ul style="list-style-type: none"> <li>• Application in practice</li> <li>• Additional guidance</li> </ul>	<i>pending</i>	<i>pending</i>
4	<b>Accounting for different types of transfer expenses arising from binding arrangements (i.e., is performance obligation distinction and separate PSPOA model useful for transfer providers?)</b>	<ul style="list-style-type: none"> <li>• Application in practice</li> <li>• Additional guidance</li> </ul>	<i>pending</i>	<i>pending</i>
5	<b>Recognition and measurement of transfer expenses</b>	<ul style="list-style-type: none"> <li>• Additional guidance</li> </ul>	<i>pending</i>	<i>pending</i>
6	<b>Clarify scope, including definition of “transfer expense”</b>	<ul style="list-style-type: none"> <li>• Additional guidance</li> </ul>	<i>pending</i>	<i>pending</i>
7	<b>Reassess existing disclosures and consider any additional disclosures</b>	<ul style="list-style-type: none"> <li>• Extent of disclosures</li> </ul>	<i>pending</i>	<i>pending</i>
8	<b>Other revisions to maintain consistency with revenue standards</b>	<ul style="list-style-type: none"> <li>• Additional guidance</li> </ul>	<i>n/a</i>	<i>pending</i>
<i>multiple</i>	<b>Other comments and clarifications</b>	<ul style="list-style-type: none"> <li>• Additional guidance</li> </ul>	<i>n/a</i>	<i>pending</i>