Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Public Board Meeting Agenda

In-person meeting, Auckland — Tuesday, 15 October

Est Time	Item	Topic	Objective		Page
PUBLIC SESSION					
11.45 am	**5**	**Measurement – Application Phase**	(AS and GS)		
70 min	5.1	Board memo	Consider	Paper	2
	5.2	Draft comment letter	Consider	Paper	22
	5.3	Comparison of COV and DRC and non-DRC Fair Value	Note	Supp Papers	–
	5.4	Extracts from Nov 2011 Board Memo and Minutes	Note	Supp Papers	–
	5.5	IPSASB ED 90 *Amendments to IPSAS as a Result of the Application of IPSAS 46 Measurement*	Note	Supp Papers	–
12:55 pm 45 min		**Lunch**			
1.40 pm	**6**	**2024 Omnibus Amendments to IPSAS**	(TB)		
15 min	6.1	Board memo	Consider	Paper	39
	6.2	Draft amending standard	Approve	Paper	45
	6.3	Draft signing memo	Approve	Paper	56
1.55 pm	**7**	**Revenue and Transfer Expenses**	(LvH and CB)		
90 min	7.1	Cover memo	Consider	Paper	61
	7.2	Board memo: Revenue	Consider	Paper	67
	7.3	Draft ED PBE IPSAS 47 *Revenue* (marked-up)	Consider	Paper	89
	7.3A	Draft ED PBE IPSAS 47 *Revenue* (clean)	Note	Supp Papers	–
	7.4	Board memo: Transfer Expenses	Consider	Paper	280
	7.5	Draft ED PBE IPSAS 48 *Transfer Expenses* (marked-up)	Consider	Paper	294
	7.5A	Draft ED PBE IPSAS 48 *Transfer Expenses* (clean)	Note	Supp Papers	–
3.25 pm 15 min		**Afternoon tea**			
3.40 pm	**8**	**Climate-Related and Other Uncertainties in Financial Statements – ED Summary and Feedback**	(JC)		
30 min	8.1	Board memo	Consider	Paper	340
	8.2	IASB ED *Climate-related and Other Uncertainties in the Financial Statements*	Consider	Paper	349
4.10 pm		**Finish**			

Next NZASB meeting: 4 December, in-person Wellington

EXRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 5.1

Memorandum

Date:	4 October 2024
To:	NZASB Members
From:	Alex Stainer and Gali Slyuzberg
Subject:	**IPSASB Measurement – Application Phase (ED 90)**

COVER SHEET

Project overview

Project purpose	IPSASB perspective: The IPSASB introduced current operational value (COV) as a new public sector-specific measurement basis in 2023. In issuing ED 90, the IPSASB proposes to introduce COV requirements into specific IPSAS – to achieve consistent measurement requirements across the IPSAS suite that result in useful information about assets held for operational capacity. XRB perspective: To consider and consult with NZ stakeholders on the appropriateness and costs/benefits of the ED proposals, and to comment to IPSASB.
Cost/benefit considerations	In consulting on IPSASB ED 90, we plan to seek stakeholders' views on the costs and benefits of the proposals.
Project priority	**Medium** If adopted into PBE Standards as drafted, the proposals in ED 90 could lead to changes in the measurement of certain assets for NZ PBEs, including intangible assets and inventory. We have concerns in relation to some of these changes.

Overview of agenda item

Project status	Consultation Paper → (Comment letter) → Exposure Draft → (Comment letter) → International pronouncement → (PBE policy approach) → Domestic Exposure Draft → Due Process → Final NZ pronouncement International / New Zealand
Board action required	**Medium complexity** PROVIDE FEEDBACK to inform the development of a comment letter on IPSASB ED 90, as well as feedback on staff's findings from outreach with respect to this ED.

Purpose and introduction[1]

1. In August 2024, the IPSASB issued Exposure Draft ED 90 *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*. ED 90 proposes to introduce COV measurement requirements into certain IPSAS – IPSAS 12 *Inventories*, IPSAS 31 *Intangible Assets* and IPSAS 21 *Impairment of Non-Cash-Generating Assets* – as well as other amendments relating to the application of IPSAS 46 *Measurement*.

2. At the NZASB August meeting, we discussed with the Board our plan to comment on IPSASB ED 90 and our preliminary views on the ED proposals.

3. The purpose of this memo is to provide information in response to certain questions raised by the Board at the NZASB August meeting, inform the Board about feedback received to date on IPSASB ED 90, and seek the Board's feedback on the draft comment letter.

Recommendation

4. We recommend that the Board:

   (a) NOTES the information on the questions raised by the Board at the August meeting;

   (b) NOTES feedback on IPSASB ED 90 received to date; and

   (c) PROVIDES FEEDBACK on the draft comment letter on IPSASB ED 90.

Structure of this memo

5. The remaining sections of this memo are:

   (a) Background

   (b) Comparison of COV to measurement requirements in current PBE Standards

   (c) Summary of outreach and feedback received

   (d) Summary of proposals in comment letter

   (e) Appendix A: Examples of how IPSASB ED 90 may affect measurement of inventory

Background

6. A summary of the more recent stages of the IPSASB's Measurement project is provided below.

   (a) Phase I: In May 2023, the IPSASB issued IPSAS 46 *Measurement*, which aligned fair value measurement requirements with IFRS 13 *Fair Value Measurement* and introduced a new measurement basis: current operational value (COV). COV was developed for assets held for operational capacity (i.e. to provide a service, rather than to generate a financial return). The IPSASB introduced COV requirements for property, plant and equipment (PP&E) assets by issuing IPSAS 45 *Property, Plant and Equipment*.

   (b) Phase II: In August 2024, the IPSASB issued ED 90, which proposes to add COV requirements into other specific IPSAS – to achieve consistent measurement

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

requirements that result in useful information about assets held for operational capacity, across the IPSAS suite.

7. In June 2023, the NZASB agreed to *defer* the application of the PBE Policy Approach to IPSAS 46 *Measurement* – and the other measurement-related IPSASB pronouncements issued in May 2023 – until the IPSASB completes 'Phase II' of its *Measurement* project. Therefore:
   (a) There are currently no COV measurement requirements in PBE Standards; and
   (b) In PBE Standards, fair value requirements are currently based on the pre-IFRS 13 definition of fair value, which refers to an exchange between knowledgeable and willing parties – rather than being explicitly an exit price that is based on market participants' assumptions.

8. Nevertheless, the Board supported our recommendation to comment on IPSASB ED 90, noting the following staff arguments in favour of commenting:
   (a) If the proposals in the ED are incorporated into PBE Standards (together with IPSAS 46 and related IPSASB pronouncement), they would change measurement requirements for intangible assets and inventory, as well as impairment requirements for non-cash-generating assets.
   (b) We have concerns about the challenges that would arise from some of these proposed changes, including concerns about whether the costs of the some of those proposals would outweigh the benefits. If these concerns are shared by New Zealand stakeholders, we think it is worth communicating these concerns to the IPSASB.

9. We have commenced our consultation on IPSASB ED 90. Comments are due to the XRB by 25 October, and to the IPSASB by 29 November. Given the IPSASB's due date, we plan to seek the Board's approval of the comment letter via circular resolution in November. We are seeking the Board's feedback on the draft comment letter at this meeting.

Comparison of COV to measurement requirements in current PBE Standards

Key differences in COV and DRC/other current fair value measurement requirements

10. At the NZASB August meeting, the Board requested a comparison between COV and depreciated replacement cost (DRC) and other non-DRC fair value measurement requirements under current PBE Standards – to better understand the implications of introducing COV as a measurement basis for the different types of assets that the IPSASB is planning to implement it for. The IPSASB has already introduced COV measurement for PP&E assets, and IPSASB ED 90 proposed to introduce COV measurement requirements for intangible assets, inventory and the impairment of non-cash-generating assets.

11. In response to the Board's request, we have analysed in detail the COV requirements in IPSAS 46, compared them with the DRC requirements and other fair value measurement requirements in PBE IPSAS 17 *Property, Plant and Equipment*, identified similarities and potential differences, and discussed with stakeholders whether the differences are likely to cause a change in practice and any concerns about the differences. At the time of writing, we have discussed this with our Accounting TRG and public sector auditors.

12. Overall, the requirements of COV have a lot of similarity to the requirements for DRC. Both methods involve determining the amount that would be paid to purchase or develop/produce the asset that is being measured, taking into account the asset's current condition, including allowing for obsolescence. Both COV and DRC can be determined by reference to an active market for an identical or similar asset, or by determining the costs of producing an identical or similar asset (with reference to a modern equivalent asset, if required), in a similar or existing location.

13. However, there are several nuances that would need to be considered in the application of the COV requirements – e.g. where a specific COV requirement is different to the DRC requirements and/or where the COV requirements are more detailed than the DRC requirements and vice versa. For example, COV is explicitly an entry price that is entity-specific, is based on the asset's existing use, and is determined based on the principle of 'least costly manner' – whereas the DRC is not explicitly required to have these features in PBE IPSAS 17.

14. In addition, COV as determined under the market approach appears to be broadly similar to the non-DRC fair value measurement requirements in PBE IPSAS 17 (which is used for assets such as land and non-specialised buildings), with both being determined based on the asset's market price. However, the abovementioned specific COV requirements are also not explicitly required for fair value measurement under PBE IPSAS 17 or other current fair value measurement requirements for non-financial assets.

15. Based on our considerations and discussions with stakeholders to date, the impact of most of these nuances does not seem significant in practice, but this does not mean there would not be circumstances where they could have a significant effect.

16. In summary, it seems that current methods for calculating DRC would generally be consistent with applying the cost approach to COV, while current methods for determining fair value for non-financial assets using methods other than DRC are broadly consistent with the market approach to COV – but there could be some differences depending on how the entity currently applies the DRC and other fair value measurement requirements to non-financial asset.

17. Agenda Item 5.3 (in the Supporting Papers) includes our detailed comparison of the COV requirements and guidance as per Appendix B of IPSAS 46 *Measurement* with the DRC requirements and other fair value measurement requirements in PBE IPSAS 17 *Property, Plant and Equipment*. A summary of this comparison is shown on the next page in Table 1.

18. The detailed comparison of COV vs DRC and other current fair value measurement requirements for non-financial assets has been useful to staff in confirming our understanding about the impact of adopting COV measurement requirements as per 'Phase I' of the IPSASB's Measurement (i.e. for PP&E) and 'Phase II' of this project (i.e. for inventory, intangible asset and for impairment of non-cash-generating assets, as per IPSASB ED 90). Having said this, the analysis has not resulted in changes to our views on the ED proposals as discussed with the Board at the August meeting.

Table 1 Summary of the different aspects of COV in comparison to DRC and non-DRC fair value in current PBE Standards

Summary of COV requirements (IPSAS 46)	**DRC (PBE IPSAS 17)**	**Non-DRC Fair Value (PBE IPSAS 17)**	**Comments – practical implications**
Definitions/descriptions			
Definition: The amount the entity would pay for the remaining service potential of an asset at the measurement date. COV determined as either: (a) The price to acquire the identical/ similar asset in an active market; (b) The costs that would be incurred to develop/produce the identical/similar, asset.	DRC is a method of determining fair value under PBE IPSAS 17. Described as "measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset"	General definition of fair value: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	See below
Elements of COV compared to elements of DRC/fair value			
1. The amount an entity would pay **Key elements:** COV is explicitly: • **Entity specific** • An **entry price** • Determined assuming the entity would pay for the remaining service potential in the **'least costly manner'** • Includes borrowing costs if the entity capitalises borrowing costs under IPSAS 5.	DRC is **not** specified as being: • Entity specific • An entry price • Determined in the 'least costly manner' There is also no requirement to include borrowing costs.	Non-DRC fair value is **not** specified as being: • Entity specific • An entry price • Determined in the least costly manner There is also no requirement to include borrowing costs.	Difference in requirements not expected to result in significant changes in practice, except for the possible difference below **DRC** • DRC is the cost to replace the asset, so effectively it is an **entry price.** **Non-DRC fair value** • Difference between **entry price and exit price** tends to be **minimal**. **Both DRC and non-DRC fair value** • DRC tends to be **entity-specific** in practice – but, the Extent to which DRC/non-DRC fair value is entity-specific vs based on market participant's assumptions depends on the type of asset. [Potential area of difference] • The principle of 'least costly manner' is followed to some extent in applying DRC/fair value. The 'least costly manner principle in COV is intended as a safeguard to avoid theoretically possible but excessive costs being included. • In practice, PBEs typically do not capitalise borrowing costs and are generally discouraged from doing so in DRC measurement.

Summary of COV requirements (IPSAS 46)	DRC (PBE IPSAS 17)	Non-DRC Fair Value (PBE IPSAS 17)	Comments – practical implications
2. Remaining service potential (a) **Physical obsolescence** due to the physical deterioration of the asset or its components (b) **Functional obsolescence** resulting from inefficiencies in the asset compared with its modern equivalent. (c) **Economic obsolescence** caused by economic or other factors outside the control of the entity."	Similar requirements to consider obsolescence and remaining service potential	Similar requirements to consider remaining service potential	**Both DRC and non-DRC fair value** Not expected to result in a change in practice.
3. The asset (a) **Existing asset** – COV is based on the cost to purchase/develop an identical or similar asset (b) **Existing use** – COV is based on the asset's existing use (c) **Existing location** – COV assumes the entity will continue providing the services currently provided using the asset from the same location. COV measurement takes into account: • **Restrictions** on use (but not much information is provided on how this is considered in context of entry price) • **Surplus capacity** – included in COV in specified circumstances. • **Modern equivalent asset** – to be referred to in COV measurement when applicable	Requirement to consider a similar asset. However, **not** specifically required to be based on **existing use**. **Not** specifically stated that DRC must take into consideration any **restrictions** on use/sale of the asset. However, it is noted that the extent to which obsolescence and surplus capacity is reflected should reflect most probable use of the asset. Requirements relating to surplus capacity are similar. Requirement to refer to a modern equivalent asset where needed.	Requirement to consider a similar asset and location. However, **not** specifically required to be based on **existing use**. Requirement that land must be valued based on **highest and best use** (but this requirement seems to focus on valuing land based on its existing location, which COV also requires).	**DRC** In practice, DRC is generally used for specialised assets for which there is usually **no alternative use** anyway. [Likely similar to COV in practice] It is uncertain whether the '**existing use**' aspect of COV would change how non-financial assets would be measured in practice. Likely to depend on valuers' interpretation [Potential area of difference] Similar requirements to DRC with respect to **surplus capacity**. **Non-DRC fair value** **Highest and best use** is sometimes considered under current fair value requirements for non-specialised assets but even some specialised assets. However, it is uncertain whether the requirement to determine COV based on existing use would cause changes in practice. Likely to depend on valuers' interpretation [Potential area of difference] **Both DRC and non-DRC fair value** It is not completely clear to us how **restrictions** would be taken into account when determining COV under the current requirements. Likely to depend on valuers' interpretation. [Potential area of difference]

Inventory: 'Lower of cost and COV' vs 'cost adjusted when applicable for any loss of service potential'

19. At the NZASB October meeting, the Board asked for more information – including examples – to help understand the impact of applying the proposed COV requirements in IPSASB ED 90 to inventories held by PBEs, as compared to the current measurement requirements.

20. IPSASB ED 90 proposes amendments to paragraph 17 of IPSAS 12 *Inventories*. This paragraph sets out the subsequent measurement requirements for inventories held for distribution, or for consumption in providing of goods or services, at no charge or for a nominal charge. In considering the impact of this proposal from a New Zealand perspective, it is useful to note that paragraph 17 of PBE IPSAS 12 is different to the existing paragraph 17 of IPSAS 12.

21. The table below outlines the current requirements in paragraph 17 of PBE IPSAS 12 and of IPSAS 12, and the IPSASB's proposed amendments to paragraph 17 of IPSAS 12 in ED 90.

Table 2 Comparison of paragraph 17 in PBE IPSAS 12, IPSAS 12 and ED 90

PBE IPSAS 12 (NZ - current)	IPSAS 12 (current)	IPSASB ED 90 (proposed)
17. Inventories shall be measured at cost, adjusted when applicable for any loss of service potential where they are held for: (a) Distribution at no charge or for a nominal charge; or (b) Consumption in the production process of goods or the rendering of services to be distributed at no charge or for a nominal charge	17. Inventories shall be measured at lower of cost and current replacement cost where they are held for: (a) Distribution at no charge or for a nominal charge; or (b) Consumption in the production process of goods or the rendering of services to be distributed at no charge or for a nominal charge	17. Inventories shall be measured at the lower of cost and ~~current replacement cost~~ current operational value where they are held for: (a) Distribution at no charge (a transfer expense) or for a nominal charge; ~~or~~ (b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge~~.~~; or (c) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge *[Note to Board: The NZ version of paragraph 17(b) already refers to 'rendering of services']*

22. The requirement in paragraph 17 of PBE IPSAS 12 was carried forward from a previous version of NZ IAS 12 *Inventories* that applied to PBEs before the introduction of PBE Standards. In the New Zealand Basis for Conclusions of PBE IPSAS 12, paragraph BC3 explains why the NZASB did not adopt the IPSASB's 'lower of cost and current replacement cost' requirement. Paragraph BC3 is reproduced below. Agenda item 5.4 in the Supporting Papers provides further context behind the NZASB decision reflected in this paragraph.

BC3. The NZASB decided that, consistent with NZ IAS 2, public benefit entities should continue to be required to measure such inventories at cost, adjusted when applicable for any loss of service potential. The NZASB decided to retain the NZ IAS 2 requirements because it considered that:

(a) The due process for the NZ IAS 2 requirements for public benefit entities for the measurement of such inventories was undertaken in recent times by the Financial Reporting Standards Board. The NZASB supported the rationale for the requirements in NZ IAS 2;

(b) The practical experience of applying the existing requirements by public benefit entities showed that such measurements provided relevant information to users; and

(c) The alternative requirement, the IPSAS 12 requirement, would be onerous for some entities.

23. One similarity between the current New Zealand measurement requirement in paragraph 17 of PBE IPSAS 12 and COV requirements is that, in practice, both the approaches consider obsolescence. However, like the IPSASB's current requirement relating to current replacement cost, it appears that IPSASB ED 90 would require COV to be determined for all inventory lines in the scope of paragraph 17, regardless of whether there are indicators of loss of service potential. In practice, the current requirements in New Zealand allow preparers to assess which inventory lines may have a loss in service potential with the use of indicators, before determining which inventory lines require an adjustment. Therefore, the proposal in IPSASB ED 90 to measure inventories in the scope of paragraph 17 at the lower of cost and COV would represent a potential change in practice in New Zealand. The arguments against adopting the "lower of cost and current replacement cost" requirement in New Zealand, as per paragraph BC3 above, may also apply to the "lower of cost and COV" proposal in IPSASB ED 90.

24. We note that the potential change in practice mentioned above is likely to be a New Zealand-specific issue, due to the current difference between paragraph 17 in PBE IPSAS 12 vs IPSAS 12. As such, we did not specifically raise this matter in the draft comment letter, although we did recommend an indicators-based approach to assessing whether COV needs to be determined for inventory in the scope of paragraph 17.

25. In terms of other impacts resulting from the introduction of COV for the subsequent measurement of inventory: We note that the COV requirements as set out in IPSAS 46, which would apply to inventories to be distributed at no charge/for a nominal charge under the ED proposals, are more detailed compared to the current measurement requirements for such inventories in PBE IPSAS 12.

    (a) Paragraph 17 of PBE IPSAS 12 requires such inventories to be measured at cost, adjusted when applicable for any loss of service potential. Paragraph 43 of PBE IPSAS 12 provides further guidance on this measurement approach by referring to "the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made". There are no additional requirements on the measurement of this type of inventory in PBE IPSAS 12.

    (b) By contrast, the COV requirements in Appendix B of IPSAS 46 comprise 38 paragraphs, including requirements to ensure that the inventory's COV reflects entity-specific assumption and the existing use of the inventory, the existing location of the inventory, requirements around 'least costly manner', specific types of obsolescence, and requirements around surplus capacity (although the requirements for surplus capacity

may not be relevant to most types of inventory). Some of these requirements may not change the outcome that would have resulted from the current requirement of adjusting cost for 'loss of service potential', but PBEs would have to consider these requirements when accounting for inventories, which may be time-consuming. While IPSAS 46 contains examples to explain certain aspects of COV, these examples relate to PP&E assets and may be of limited usefulness to prepares when applying COV requirements to inventory.

26. It is also not clear how inventory that is a work in progress at balance date should be valued using COV. IPSASB propose to specify in IPSAS 21 *Impairment of Non-Cash Generating Assets* that damaged assets that are not operable have a COV of zero as there is no current service potential. If this concept was applied to inventory, it could be interpreted that the COV of work in progress is also zero as it is not completed and has no current service potential. Some clarity on how COV applies to work in progress would be useful.

27. In Appendix A of this memo, we have included some examples to help outline the key differences in applying "lower of cost and COV" vs "cost adjusted where applicable for any loss of service potential", for different items of inventory.

28. Please note that:

    (a) The "lower of cost and COV" proposal in IPSASB ED 90 relates only to inventories in the scope of paragraph 17 of IPSAS 12/PBE IPSAS 12, i.e. inventories held for distribution at no charge/for a nominal charge. Other types of inventories would continue to be measured at lower of cost and net realisable value under the ED proposal.

    (b) IPSASB ED 90 also proposes to require COV measurement for the initial recognition of inventories received in a non-exchange transaction that are held for operational capacity. However, we have not discussed this proposal in this memo, for the following reason: Under PBE IPSAS 12, NZ PBEs are permitted not to recognise donated inventories "if it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of recognising the goods at the date of acquisition outweigh the benefits". Presumably, a similar exemption would be considered in New Zealand if and when COV is introduced for the measurement of inventories – which would limit the impact of the proposal to apply COV on the initial recognition of inventories.

Summary of outreach and feedback received

29. We have published IPSASB ED 90 on to our website and notified stakeholders about this ED via our Accounting Alert. We also reached out to specific stakeholders that are likely to be interested in the ED, including Treasury, OAG, Audit NZ, professional accounting bodies, accounting firms via the Accounting TRG, and PBE preparers via the PBE Working Group.

30. At the time of writing, we have not yet received formal feedback on IPSASB ED 90. Comments are due to us by 25 October.

31. However, we have received informal feedback on the ED proposals, as well as on our analysis of the differences between COV and DRC and other fair value measurement requirements in PBE Standards, with the Accounting TRG, as well as public sector auditors. These discussions are summarised below. The feedback informed our draft comment letter.

Accounting TRG

32. We discussed the IPSASB Measurement project with the TRG on 10 September. Key points from our discussion with TRG include:

    (a) COV vs DRC and other current fair value requirements in PBE Standards: TRG Members generally thought that COV was similar to DRC and other fair value measurement requirements in current PBE Standards (with the caveat that they did not come across DRC often in practice). However, TRG Members recommended to discuss the potential differences between COV and DRC/fair value with valuers – particularly with respect to restrictions, 'highest and best use' vs 'existing use', and the use of observable vs unobservable inputs. Refer to Agenda Item 5.3 (Supporting Papers) for more information.

    (b) Proposals in IPSASB ED 90: TRG Members questions whether introducing COV requirements for inventory would make sense from a cost/benefit perspective, and shared our concerns regarding the proposed application of COV to the revaluation of intangible assets held for operational capacity when there is no active market.

Public sector auditors

33. We also discussed the IPSASB Measurement project with public sector auditors on 10 September. Key points from the discussion included the following.

    (a) COV vs DRC and other current fair value requirements in PBE Standards: In practice, COV determined under the cost approach would be generally similar to DRC, and COV determined under the market approach would be generally similar to current non-DRC fair value measurement. Many of the nuances that staff identified between the COV and DRC/fair value requirements are *not* expected to result in significant change practice. However, there could be some areas of difference that would be useful to explore further with valuers, e.g. with respect to existing use vs highest and best use and restrictions. Refer to Agenda Item 5.3 (Supporting Papers) for more information.

    (b) Proposals in IPSAS ED 90:

        (i) Proposal to introduce COV measurement for inventory: Did not support the proposals. The current requirements for measurement of inventory in PBE IPSAS 12 work well in practice and do not need enhancing.

        (ii) Proposal to introduce COV measurement for intangible assets: Similar concerns to what was noted in the Alternative View in ED 90 – including:

        - concerns about allowing software, a commonly-held intangible asset in the public sector, to be revalued without an active market.
        - concerns that the IPSASB is focusing only on the measurement of intangible assets, missing the interplay with other principles of accounting for intangible assets.
        - Further work is needed before COV requirements are introduced for intangible assets.

        (iii) Proposals to measure the recoverable service amount of non-cash-generating assets as the higher of fair value and COV: Concern about whether the ED proposals would

be sufficiently clear regarding the accounting for damaged assets - noting that in current practice, restoration cost is often used to determine the recoverable service amount of such assets, and this is working well.

PBE Working Group

34. The PBE Working Group consists of PBE preparers in the public and not-for-profit sectors. We plan to discuss with this group the difference between COV and DRC/other fair value measurement requirements under current PBE Standards, and the proposals in ED 90. Our meeting with the PBE Working Group is on 8 October, and we will provide a verbal update of feedback received from this Group during the NZASB October meeting.

Draft comment letter

35. Our draft comment letter is included as Agenda Item 5.2. The draft letter has been informed by the Board's preliminary feedback on the ED proposals and on our preliminary views as discussed the NZASB August meeting, as well as the abovementioned feedback received from stakeholders to date.

36. A summary of the matters raised in the draft comment letter is included below.

Table 3 Summary of draft comment letter

Specific matter for comment	View expressed in draft comment letter
SMC 1: Do you agree that current operational value is an applicable current value measurement basis for assets in the scope of IPSAS 12, Inventories, and IPSAS 31, Intangible Assets, as proposed in Part 1 of this ED? If you do not agree please explain your reasoning. The ED includes an Alternative View on adding current operational value as an additional measurement basis to the current value model in IPSAS 31.	**Inventories** We are concerned that the costs of implementing the proposals relating to inventory would not be sufficiently justified by benefits. • It is not clear that introducing COV would improve the information reported on inventory and/or whether there are any issues arising from the existing requirements that this proposed change would address. • Introducing COV requirements for inventory could result in additional costs for preparers, considering that the COV requirements are more detailed than the existing 'current replacement cost' requirement in IPSAS 12, and some COV guidance is more readily applicable to PP&E. • The proposals are not clear on how inventory that is 'work in progress' at balance date should be valued using COV. If the IPSASB proceeds with the proposals, we recommend considering practical expedients and application guidance specific to inventory with respect to COV. We also have comments on an instance where there is inconsistency between amendments to the Basis for Conclusion of IPSAS 12 and amendments to the core text of IPSAS 12, and lack of clarity in the authoritative text of IPSAS 12 regarding the determination of 'deemed cost'. **Intangible assets** We support the Alternative View and do not recommend moving forward with introducing COV as a measurement base for intangible assets at this time. The active market restriction is a key principle in the revaluation of intangible assets, to ensure reliable measurement. The impact of removing this restriction for intangible assets held for operational capacity does not seem fully

Specific matter for comment	View expressed in draft comment letter
SMC 1 (continued)	understood/explained, nor has it been demonstrated to result in faithfully representative information and appropriate reporting outcomes. There is a risk that revaluation of intangible assets without reference to an active market could negatively impact faithful representation. We have explained this risk with reference to software systems (including internally-developed systems), a common intangible asset in the public sector. We recommend IPSASB undertake further analysis to understand the impact of the proposed removal of the active market restriction before proceeding with the introduction of COV for intangible assets. We recommend additional guidance on applying COV to intangible assets, given that some COV measurement requirements are more readily applicable to PP&E. It would be prudent for the IPSASB to wait for IASB to progress their comprehensive review of accounting requirements for intangible assets, rather than introduce changes to one aspect of accounting for intangible assets now. If, after undertaking additional analysis, the IPSASB decides that it is appropriate to remove the active market restriction with certain safeguards for intangible assets held for operational capacity, e.g. whereby the active market restriction is removed only for those intangible assets held for operational capacity that are commodity-like in nature and are traded regularly (albeit not necessarily in an active market), then it would be sensible to consider a similar approach to intangible assets held for financial capacity (e.g. fishing quota).
SMC 2: Part 1 of this ED proposes that current operational value is an applicable subsequent current value measurement basis for right-of-use assets (i.e., assets in scope of IPSAS 43, Leases). (a) Do you agree that current operational value can be applied to the subsequent measurement of right-of-use assets? If you do not agree, please explain your reasoning. (b) If you agree with (a), do you agree that current operational value can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques)? If you do not agree please explain your reasoning.	We agree in principle that COV could be an applicable current value measurement for ROU assets held for operational capacity. We agree that discounting of future lease payments for purposes of revaluing a ROU asset can be consistent with COV. However, we recommend clarifying the difference between a cost and market approach for revaluing ROU assets, as this is currently not clear. It would be useful to provide application guidance on the COV measurement of ROU assets in an authoritative part of IPSAS 46 or IPSAS 43, rather than only in the Basis for Conclusions. ED 90 proposes that COV does not include concessionary elements, such as a concession in a concessionary lease. It is not clear to us how COV would be determined for a revalued ROU asset arising from a concessionary lease of a specialised asset where market rentals are not readily available.

Specific matter for comment	View expressed in draft comment letter
SMC 3: Do you agree with the replacement of value in use of a non-cash-generating asset by current operational value in the definition of recoverable service amount in IPSAS 21, Impairment of Non-Cash Generating Assets, as proposed in Part 2 of this ED? Recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its current operational value. If you do not agree please explain your reasoning.	We agree in principle that COV could appropriately replace VIU, noting that as COV is entity specific it is consistent with the main principle of impairment testing, and there is a cost/benefit advantage for those adopting COV for revaluation of PP&E. We have concerns about the proposal to specify in IPSAS 21 that the COV of a damaged asset that is not operable at measurement date is zero. Currently, the recoverable service amount of damaged assets is usually determined using restoration cost, which does not necessarily result in a value of zero. While the fact that the proposal represents a change in practice is not an issue in and of itself, we are concerned about a potential inconsistency between this proposal and the COV requirements in IPSAS 46, as well as lack of clarity regarding the interaction of this proposal with the revaluation requirements in IPSAS 45 – and there is a risk that this proposal could cause unintended consequences for revalued PP&E, as well as for work-in-progress inventories under IPSAS 12. We recommend that the IPSASB considers and addresses these concerns.
Other comments	In the cover letter, we propose to note that it would have been useful if the IPSASB explained to stakeholders what is the difference between COV and DRC/other previous fair value measurement requirements – to assist prepares in the transition to the COV requirement and to assist stakeholders in better understanding the implications of the proposals in ED 90. We also added a section on 'Other comments' at the end of the comment letter, to cover a comment raised by a Board Member after the August meeting regarding retrospective application, as well as certain comments discussed with the Board in August that do not relate to the three SMCs, e.g. regarding disclosure requirements.

Questions for the Board

Q1. Does the Board have any feedback on the comparison between COV and DRC/other fair value measurement requirements for non-financial assets under current PBE Standards?

Q2. Does that Board have any feedback on the draft comment letter in Agenda Item 4.2?

Next steps

37. We will update the draft comment letter for the Board's feedback. We will also consider update to the draft letter based on any further feedback we receive from stakeholder (comments to the XRB close on 25 October). We plan to circulate the updated draft letter to the Board in mid-November, and seek approval via circular resolution.

Attachments:

Agenda Item 5.2	Draft comment letter
Agenda Item 5.3	Detailed comparison of COV and depreciated replacement cost/other fair value measurement requirements in current PBE Standards [in the Supporting Papers]
Agenda Item 5.4	Extract from November 2011 NZASB Board paper and minutes relating to PBE IPSAS 12 *Inventories* [in the Supporting Papers]
Agenda Item 5.5	IPSASB ED 90 Amendments to IPSAS as a Result of the Application of IPSAS 46 *Measurement* [in the Supporting Papers]

Appendix A – Examples of how IPSASB ED 90 may affect measurement of inventories

1. Medical supplies[2]

Initial recognition

In this example, a PBE purchases medical supplies are purchased in an active market and the medical supplies are recorded initially at cost (weighted average cost) under the existing requirements of PBE IPSAS 12.

The initial measurement of inventory purchased in an exchange transaction would not change under IPSASB ED 90.

Subsequent measurement

The medical supplies in this example are held for operational capacity – specifically, for the purpose of delivering healthcare services at no charge, as per the policy objective of our public health sector.

Comparison of current measurement treatment vs proposals in IPSASB ED 90

Current measurement treatment	Measurement treatment under the proposals in ED 90
Paragraph 17 of PBE IPSAS 12 applies: *"Inventories shall be measured* ***at cost, adjusted when applicable for any loss of service potential*** *where they are held for:* *(a) Distribution at no charge or for a nominal charge; or* *(b) Consumption in the production process of goods or the rendering of services to be distributed at no charge or for a nominal charge."* Under these current requirements, the medical supplies would be measured at cost, adjusted when applicable by the loss of service potential. The loss in service potential might only be determined when there are indicators of obsolescence. Indicators of obsolescence may include identifying specific obsolete inventory items or slow turnover inventory lines. There are no specific requirements in PBE IPSAS 12 on how to determine the loss of service potential, other than the following guidance in paragraph 43: "the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made". There are no additional requirements on the measurement of this type of inventory in PBE IPSAS 12.	Amended paragraph 17 of IPSAS 12 would apply: *'Inventories shall be measured at the* ***lower of cost and current operational value*** *where they are held for:* *(a) Distribution at no charge (a transfer expense) or for a nominal charge; or* *(b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or* *(c) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.'* Therefore, under the ED 90, medical supplies would be required to be measured at the lower of cost and COV. The proposed requirements imply that COV would need to be determined every year to ascertain whether it is lower than cost and therefore whether an adjustment to the medical supplies' cost is required. IPSAS 46 contains specific requirements for the determination of COV, which are more detailed than the current requirements for determining cost adjusted for loss of service potential. These more detailed requirements would need to be considered in the measurement of the medical supplies under the ED proposals.

[2] In this example, we have considered the accounting policies and disclosures on inventories in Health NZ Te Whatu Ora annual report (pages 256-257)

	The COV measurement requirements are discussed in the table below. It is worth noting that: • The COV requirements include requirements relating to obsolescence, and obsolescence is considered under the current requirements – but the COV requirements for obsolesce are more detailed, and there are other specific requirements under COV. • Some of the COV requirements would not be applicable to the medical supplies (e.g. surplus capacity). • There are some examples of the application of certain aspects of COV in the core text and non-authoritative text of IPSAS 46, but these tend to relate to PP&E, therefore they may not be readily applicable to inventories such as medical supplies.

Additional detail on the application of COV to the inventories in this example:

COV inputs	Comment
1. Amount an entity would pay If there is an active market – cost to acquire identical or similar asset; Or (where no identical or similar assets on an active market): Estimated costs to reproduce identical or similar asset	The proposal indicates that COV should be determined (and compared against cost) for each line of medical supplies, not just those with an indicator of obsolescence. Assuming that there is an active market for medical supplies, we would expect an entity could use the market for pricing information of an identical asset relatively easily. However, if a line of medical supplies is no longer sold and have been replaced by newer releases, a similar asset (or the modern equivalent asset) should be able to be used in reference to the active market.
2. Remaining service potential Assess obsolescence: • Physical • Functional • Economic	For each line of medical supplies, an assessment would need to be made of the physical condition of the current stock held. A subject matter expert may be needed to assess the condition/functionality of some lines of medical supplies in comparison to a newly purchased line of identical or similar medical supplies from market in order to make an adjustment to the revised market information. Medical supplies can become obsolete due to advancements in design and materials (functional obsolescence), forms of deterioration that make the medical supplies unsafe or less reliable (physical obsolescence), changes in medical practice, changes in patients' preferences and needs, environmental or sustainability concerns and regulatory changes (economic obsolescence).

COV inputs	Comment
3. Asset Identical or similar asset Based on asset's existing use, including any restrictions in use Based on existing location Surplus capacity included in COV in certain circumstances Modern equivalent asset to be considered in COV determination when relevant	It is expected that identical or similar medical supplies are able to be used as a comparison. Medical supplies could potentially have alternative uses in some cases, including being used to offer medical services in a private hospital for market-based fees. Nevertheless, when determining the cost to acquire the medical supplies on the market for the purpose of determining COV, it is unlikely that market participant's assumptions will differ from the entity's assumptions based on existing use. Location of where the inventory is held should be considered. Surplus capacity requirements unlikely to be relevant to medical supplies.

2. Military inventories (ammunition)[3]

Initial recognition

This example considers military inventories (ammunition) that are bought and sold in an existing market. In this example, the purchase of military inventories on market establishes the cost base on initial recognition. A weighted average cost is likely to be used to determine a per unit cost.

The initial measurement of inventory purchased in an exchange transaction would not change under IPSASB ED 90.

There could be instances where military inventories are received in non-exchange transactions i.e. received from an assisting foreign nation. In these cases, under ED 90, a deemed cost will need to be determined using measurement bases in IPSAS 46 (COV or fair value for assets). An entity would then apply the relevant measurement basis and technique. It is not overly clear from the core text of IPSAS 46 or IPSAS 12 how to select the relevant measurement basis in this circumstance. However, ED 90 introduces BC 94(a) in the Basis for Conclusions for IPSAS 46 that clarifies that inventory held for operational capacity shall use COV to determine deemed cost.

Subsequent measurement

Military inventories are held in an operational capacity, on the basis that it is used in the service delivery of a defence force service, which is not charged to anyone.

[3] In this example, we have considered the accounting policies and disclosures on inventories in the NZDF annual report (page 179)

Comparison of current measurement treatment vs proposals in IPSASB ED 90

Current measurement treatment	Measurement treatment under the proposals in ED 90
Paragraph 17 of PBE IPSAS 12 applies: *"Inventories shall be measured **at cost, adjusted when applicable for any loss of service potential** where they are held for:* *(a) Distribution at no charge or for a nominal charge; or* *(b) Consumption in the production process of goods or the rendering of services to be distributed at no charge or for a nominal charge."*	Amended paragraph 17 of IPSAS 12 would apply: *'Inventories shall be measured at the **lower of cost and current operational value** where they are held for:* *(a) Distribution at no charge (a transfer expense) or for a nominal charge; or* *(b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or* *(c) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.'*
For more information, refer to the comparison table under Example 1, Medical Supplies – similar considerations apply in the case of military inventories. The COV measurement requirements are more detailed that the current requirements for inventories in the scope of paragraph 17. The COV measurements are discussed in the table below.	

Additional detail on the application of COV to the inventories in this example:

COV inputs	Comment
1. Amount an entity would pay If there is an active market – cost to acquire identical or similar asset; Or (where no identical or similar assets on an active market): Estimated costs to reproduce identical or similar asset	The proposal indicates that COV should be determined (and compared against cost) for each line of military inventories, not just those with an indicator of obsolescence. There is an active market for military inventories. We would expect an entity could use the market for pricing information of an identical asset. However, the purchase of military inventories would be subject to regulation and oversight, including particular procurement procedures that could complicate the process of revisiting the market for updated market inputs and to revise the weighted average cost. Fluctuations in exchange rates could impact the market input significantly. If a line of military inventories are no longer sold and replaced by newer releases, a similar asset (or the modern equivalent asset) must be used in reference to the active market. It is unlikely that costs to reproduce the asset will need to be calculated for military inventories.

COV inputs	Comment
2. Remaining service potential Assess obsolescence: • Physical • Functional • Economic	A subject matter expert may be needed to assess the condition/functionality of military inventories in comparison to a newly purchased line of identical or similar military inventories from market in order to make an adjustment to the revised market information. Certain lines of military inventories become obsolete due to upgrades in weapons, advancements in design and materials (functional), forms of deterioration that make military inventories unsafe or less reliable (physical), changes in market demand, and policy decisions (economic).
3. Asset Identical or similar asset Based on asset's existing use, including any restrictions in use Based on existing location Surplus capacity included in COV in certain circumstances Modern equivalent asset to be considered in COV determination when relevant	It is expected that identical or similar military inventories can be used as a comparison. Military inventories can be held for different purposes, training, live combat, or as a deterrent. Nevertheless, it is unlikely that market participant's assumptions will differ from the entity's assumptions based on existing use. An entity may need to assess where military inventories are stored or ordered from – e.g. whether there a different price if order would go to an overseas base versus a base in New Zealand. Surplus capacity requirements unlikely to be relevant.

3. Social housing – development property to on sell

An entity provides social and affordable housing in a few different methods. One of the methods, includes subdividing and developing large parcels of land to on sell sections with new housing at affordable pricing. It considers that these are developed and sold in the ordinary course of their business, and therefore classified as inventory.

Initial recognition

This example assumes that the property was initially recognised at cost. IPSASB ED 90 would not change this treatment for inventory purchased in an exchange transaction.

Subsequent measurement

In PBE IPSAS 12, paragraph 15 notes:
'Inventories shall be measured at the lower of cost and net realisable value, except where paragraph 16 or paragraph 17 applies'

IPSASB ED 90 does not propose changes to this paragraph.

Paragraph 17 of PBE IPSAS 12 and paragraph 17 of IPSAS 12 as amended per ED 90 are shown below:

Current measurement treatment	Measurement treatment under the proposals in ED 90
*"Inventories shall be measured **at cost, adjusted when applicable for any loss of service potential** where they are held for:* *(a) Distribution at no charge or for a nominal charge; or* *(b) Consumption in the production process of goods or the rendering of services to be distributed at no charge or for a nominal charge."*	*'Inventories shall be measured at the **lower of cost and current operational value** where they are held for:* *(a) Distribution at no charge (a transfer expense) or for a nominal charge; or* *(b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or* *(c) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.'*

Does paragraph 17 of PBE IPSAS 12 apply?

The development property could be considered as being held for operating capacity rather than financial capacity (principle of applying COV) given the objective that housing will not be sold at market prices but at affordable pricing. Therefore, it achieves a policy objective. In part, it may also somewhat fund the entity as the sale of the property will result in cash flows despite being sold below market value.

The criteria in paragraph 17 of IPSAS 12 ties back to the operating vs financial capacity concept by linking the delivery to a good or service provided at either no charge or a nominal charge. That is, if inventory is held for financial capacity the entity would charge more than a nominal amount (likely the market price). However, paragraph 17 of IPSAS 12 does not cover all inventory held for operational capacity. Inventory held for operating capacity may also in some instances be priced higher than a nominal amount (but lower than market price).

Accordingly, the property must be assessed as to whether it is held for distribution, or for consumption in the delivery of goods or services at no charge (a transfer expense) or for a nominal charge.

It is questionable whether in this scenario the property is provided for a nominal charge. While the price will be below the market price of the property, it is not expected that the affordable pricing of the housing will be insignificant to those purchasing these units.

The conditions 'no charge or nominal charge' are not new and are already used to assess how to measure inventory under PBE IPSAS 12. We note that Kāinga Ora[4], for instance, hold development property as inventory, with some of the properties being held for sale at market prices and some for sale at affordable prices – but all of these inventory items are measured at the lower of cost or net realisable value, rather than at cost adjusted (when applicable) for loss of service potential. This indicates that in practice the properties held for sale for at an affordable price are not considered to be sold for a 'nominal charge'.

We would expect in these scenarios, that a provider of social housing that develops properties for sale for affordable pricing would value inventory at lower of cost or net realisable value. Determining net realisable value may be as simple as referring to the price set for the affordable housing.

[4] For detail refer to 'Properties under development' page 92 Kāinga Ora annual report

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, Toronto
Ontario M5V 3H2
CANADA

[date]

Submitted to: www.ifac.org

Dear Ross

IPSASB ED 90 Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*

Thank you for the opportunity to comment on Exposure Draft 90. We have exposed the ED in New Zealand and some New Zealand constituents may comment directly to you.

We acknowledge that the intent of ED 90 to provide consistent measurement requirements across IPSAS could be beneficial to preparers, and could enhance comparability of information reported on assets for the benefit of users of financial statements.

However, we have some concerns with respect to the proposals in ED 90. Our main concerns are highlighted below, with more details and some recommendations included in Appendix A:

- We are concerned that the costs of applying COV requirements to inventory may not be sufficiently justified by benefits. Also, some COV requirements/guidance appear better suited for PP&E, which could make COV challenging to apply to inventory. Practical expedients and guidance may help reduce costs and challenges.
- We do not support introducing COV as a measurement basis for intangible assets at this time. We support the Alternative View outlined in ED 90.
- We have concerns about the proposal to specify in IPSAS 21 that the COV of a damaged asset not operable at year end is zero. In some cases, the lack of clarity regarding the interaction between this proposal in IPSAS 21 and the requirements in other standards may lead to inconsistent accounting treatment.

We appreciate the IPSASB's efforts to clarify the application of certain aspects of the COV requirements in IPSAS 46 via ED 90. We believe recommend to also provide explanations on how COV is different to the measurement requirements it is replacing, i.e.:

- How COV measurement using the cost approach is different to determining fair value as per the 'old' (pre-IPSAS 46) definition using the depreciated replacement cost (DRC) requirements in IPSAS 17 *Property, Plant and Equipment* – and how is it different to determining 'value in use' under the existing requirements of IPSAS 21 *Impairment of Non-Cash-Generating Assets*, and;
- How COV measurement using the market approach is different to determining fair value under the 'old' definition using market-based methods as described in IPSAS 17 and other IPSAS covering non-financial assets.

For example, it would have been useful to explain that if an entity previously determined fair value (under the 'old' definition) using DRC, similar DRC calculations could be used when determining COV using the cost approach – except that the entity may need to make adjustments for certain aspects of COV that were not specified in the previous fair value/DRC requirements (depending on how the entity previously applied DRC) and/or where the COV requirements are different to the previous fair value/DRC requirements.

Such explanation would have helped stakeholders in the transition from the previous fair value requirements to COV, and in understanding the impact of the proposals in ED 90.

There are some aspects of IPSAS 46 where further clarification is needed to help with the consistent application of IPSAS 46 – specifically, with respect to the interaction between the requirements relating to obsolescence and those relating to surplus capacity, and with respect to considering restrictions on an asset's use in the context of an entry value.

If you have any queries or require clarification of any matters in this letter, please contact Gali Slyuzberg (gali.slyuzberg@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery

Chair – New Zealand Accounting Standards Board

Appendix A

Specific Matter for Comment 1: Do you agree that current operational value is an applicable current value measurement basis for assets in the scope of IPSAS 12, *Inventories*, and IPSAS 31, *Intangible Assets*, as proposed in Part 1 of this ED? If you do not agree please explain your reasoning. *The ED includes an Alternative View on adding current operational value as an additional measurement basis to the current value model in IPSAS 31.*

IPSAS 12 *Inventories*

Proposal to introduce COV for the subsequent measurement of inventory

1. While we agree that the principles of COV could theoretically be applied to inventory, we are concerned that the costs resulting from the proposed change in the subsequent measurement of inventory may not be sufficiently justified by benefits – and if that is the case, we do not recommend proceeding with this proposal as currently drafted.

2. IPSAS 12 currently requires inventories held for distribution at no charge or for a nominal charge to be measured at the lower of cost and 'current replacement cost' (CRC). ED 90 proposes to replace CRC with COV. In ED 90, paragraph BC17 in the Basis for Conclusions of IPSAS 12 notes that:

   (a) the proposed change will align measurement requirements for inventory with updated measurement methodology in IPSAS 46 *Measurement* – leading to greater consistency in measurement requirements across IPSAS; and

   (b) due to the similarity between the key principles of CRC and COV, this change is not expected to result in changes to measurement outcomes for inventory.

3. We acknowledge that in general, there are benefits in having consistent measurement requirements across accounting standards. Such consistency can help address application challenges that sometimes arise when prepares have to consider a variety of different measurement requirements, and avoid inconsistent reporting in the financial statements.

4. However, we are not aware that the existing CRC requirements in IPSAS 12 are causing any significant application challenges or inappropriate reporting outcomes that would be resolved by replacing CRC with COV.

   (a) Given that the proposal does not seek to change the current measurement outcomes for inventory (as per the abovementioned paragraph BC17 in IPSAS 12), we understand that the existing CRC requirements are resulting in appropriate measurement outcomes.

   (b) The Basis for Conclusions does not indicate that there are application challenges, diversity in practice, unmet user needs or other issues with the CRC requirements. If such issues exist, the proposed introduction of COV may have the benefit of alleviating these. However, it does not seem to be the case currently.

5. We also understand that the replacement of CRC with COV is not expected to result in improvements to information reported on inventory in the financial statements, as paragraph BC17 indicates that this proposal is not expected to change measurement outcomes.

6. If there are no specific issues faced by prepares or users of financial statements that would be resolved by the replacement of 'current replacement cost' with COV, then – considering that this proposal is also not likely to result in improved information in the financial statements – we are concerned that the benefits of the proposals might be limited, and may not justify the costs discussed in the paragraphs that follow.

7. As COV is a new measurement basis and the COV requirements are more detailed compared to the existing 'current replacement cost' requirements, applying COV requirements to inventory could add costs for preparers of financial statements.

8. In addition, some COV requirements and most of the COV guidance and examples in IPSAS 46 seem to be more readily applicable to PP&E assets (which tends to be more complex assets in nature and tend to be held for longer periods than inventory). For example, paragraphs B18-B27 of IPSAS 46 set out the concepts of 'existing asset', 'existing use' and 'existing location' and include examples to explain these concepts – and all of these examples relate to PP&E. This focus on PP&E could result in challenges when applying COV requirements to inventory, which could in turn lead to additional application costs.

9. While the implementation of changes to accounting requirements tends to involve a certain amount of cost in general, we are concerned that the costs of applying COV to inventory may not be justified by benefits, based on the discussion above. While we acknowledge the benefit of having a consistent measurement basis used throughout the IPSAS suite, we recommend that the IPSASB elaborates on the costs and benefits of the proposal to introduce COV into IPSAS 12 in the Basis for Conclusions – including information on relevant current issues with CRC and how these may be addressed by introducing COV as a replacement.

10. If COV requirements are introduced for the measurement of inventory, we recommend the introduction of practical expedients and further application guidance specific to inventory to balance the benefits and costs. For example:

    (a) Introduce a rebuttable presumption that an entity does not need to consider the concept of surplus capacity and certain other aspects of the COV requirements in IPSAS 46 that would generally not apply to inventory, or where the cost of application might exceed the benefit – and this presumption could be rebutted for inventory that is more similar to PP&E, such as buildings held as inventory.

    (b) For inventory held for distribution at no charge/for a nominal charge: Introduce indicators that would require COV to be determined – similarly to the concept of impairment indicators in IPSAS 21 and IPSAS 26 – and if these indicators are not present, then COV would not need to be determined. The proposed wording in paragraph 17 of ED 90 could be revised to: "Inventories held for a purpose set out in (a)-(c) below shall be measured at cost, unless there are indicators of a loss of service potential, in which case these inventories shall be measured at lower of cost and COV. This applies when the inventories are held for […]".

(c) Include examples of common public sector inventory types and considerations in measuring these using COV.

(d) Include guidance on how COV should be applied to inventory that is a work in progress/not complete at balance date (we believe additional clarity is needed in this area - refer to paragraph 41 of this letter for more context for this recommendation).

Other comments on Inventory

Operational and financial capacity with respect to inventory

11. Should the IPSASB proceed with introducing COV requirements for inventory, we recommend amending proposed paragraph BC 94(b) in the Basis for Conclusions of IPSAS 46. This paragraph currently notes that COV should be applied in the subsequent measurement of inventory held *for operational capacity*. This is consistent with the principles for selecting the current value measurement basis for PP&E in IPSAS 45 *Property, Plant and Equipment*. However, it is not fully consistent with paragraph 17 of IPSAS 12.

12. The proposed amendments to paragraph 17 of IPSAS 12 would require inventory to be measured at the lower of cost and COV only if the inventory is held for distribution or consumption in the process of delivering goods and services *for no charge or a nominal charge*. This is not necessarily equivalent to the concept of operational capacity.

13. Consequently, inventory that is held for operational capacity may not necessarily meet the requirements of paragraph 17 of IPSAS 12, as explained below.

    (a) In the implementation guidance accompanying IPSAS 46, paragraph B.1 notes that in making judgements on whether an asset is held for financial or operational capacity, an entity should consider the principles in paragraphs 16-21 of IPSAS 21, i.e. the principles for distinguishing between cash-generating assets and non-cash-generating assets. According to IPSAS 21, cash-generating assets are held for the primary objective of generating a commercial return. This implies that an asset is held for financial capacity if it is generating a commercial return – and that inventory that generates a return higher than 'nominal charge' but lower than a commercial return is held for operational capacity.

    (b) Some inventory will not meet the criteria of paragraph 17 of IPSAS 12, even though it is held for operational capacity. For instance, developing and selling new property at affordable pricing may meet an objective of a social housing policy. The property would be held for operational capacity, i.e. primarily to provide a service, rather than to generate a commercial return – but it would not meet the criteria of paragraph 17, and therefore would not be subsequently measured by the lower of cost and COV.

14. The implication in proposed paragraph BC94(b) of IPSAS 46 that COV is used for all inventory held for operational capacity is misleading and could potentially confuse the application of paragraph 17 in IPSAS 12. To address this, we recommend:

    (a) amending paragraph BC94(b) to be more consistent with the requirement in paragraph 17 of IPSAS 12; and

(b) providing an explanation in BC94(b) (or another relevant paragraph) that the basis for determining the current value measurement basis is different for the subsequent measurement of inventory is different compared to PP&E (and intangible assets, if COV is introduced into IPSAS 31) and the rationale for the difference.

Deemed cost for inventory

15. It is currently not clear from the authoritative text of IPSAS 12 or IPSAS 46 (or any other IPSAS) how to determine the deemed cost of inventory received in a non-exchange transaction.

    (a) IPSAS 12 notes that inventory received in a non-exchange transaction shall be recorded at deemed cost and requires entities to apply the relevant requirements in IPSAS 46. In IPSAS 46, paragraph 10 describes circumstances when an asset is measured at deemed cost on initial recognition, notes that a current value measurement basis is used to determine deemed cost, and refers to the current value measurement bases described in paragraphs 23-31 (COV, costs of fulfilment, and fair value). In none of these paragraphs is it sufficiently clear for preparers how they should select between COV and fair value when determining deemed cost.

    (b) Other Standards also do not provide direction in this regard. In IPSAS 23 *Revenue from Non-exchange Transactions*, paragraph 43A provides guidance for the measurement of deemed cost for PP&E, but this guidance does not cover inventory or other assets. This is also the case in IPSAS 47 *Revenue*.

16. Preparers would have to refer to the Basis for Conclusions of IPSAS 12 (paragraph BC 19) or the Basis for Conclusions of IPSAS 46 (paragraph BC 94(a)) to understand that COV should be used for deemed cost where inventory is held for operational capacity.

17. We recommend uplifting the relevant content of paragraph BC 19 of IPSAS 12 into the core text of the Standard, or providing direction within IPSAS 46 on how to select the appropriate current value measurement basis when determining deemed cost.

18. Furthermore, paragraph BC 19 of IPSAS 12 also notes that the reason for determining deemed cost as current operational value when the inventory is held for operational capacity is to prevent a revaluation of inventories to COV after initial recognition solely because of differences between current value measurement bases. However, as discussed in the section above: it seems that due to the application of paragraph 17 in IPSAS 12, inventory held for operational capacity could in some cases be measured at the lower of cost and net realisable value instead. This reflects an inconsistency that does not seem intended.

19. We recommend elaborating on the matter above in the Basis for Conclusions, and considering the development of guidance that outlines the appropriate treatment in cases when inventory acquired in a non-exchange transaction is held for operational capacity but is to be distributed for a price higher than ‘nominal cost’ – to support consistent application of IPSAS 12.

IPSAS 31 *Intangible Assets*

Proposal to introduce COV for the subsequent measurement of intangibles held for operational capacity

20. Our views generally align with those included in the Alternate View in ED 90. We do not recommend moving forward with introducing COV as a measurement base for intangible assets at this time.

21. We acknowledge that COV is conceptually consistent with not requiring an 'active market restriction', given that COV is an entity-specific entry price. However, while fair value as defined in IPSAS 46 is determined as an exit price based on market participants' assumptions, IPSASs generally do not impose an 'active market restriction' for the revaluations of assets at fair value – with intangible assets being an exception, due to their nature. As explained in the Basis for Conclusions of IPSAS 31 in ED 90, it may not be possible to reliably determine an exit price for specialised or unique internally-generated intangible assets, for the purpose of fair value measurement. However, determining an entry price for a unique and/or specialised internally-generated intangible assets for the purpose of COV measurement could arguably give rise to similar concerns regarding reliability/representational faithfulness.

22. Currently, IPSAS 31 imposes an 'active market restriction' on the revaluation of all intangible assets, regardless of the purpose for which they are held, to ensure that intangible assets are reliably measured. The proposal to removing this restriction for the revaluation of intangible assets held for operational capacity is a fundamental change to existing practice, and a departure from a key principle in the accounting for intangible assets. We are concerned that the impact of this proposed change is not fully understood, nor has it been demonstrated that this change would result in appropriate financial reporting outcomes. As described in the Alternative View, there is a risk that applying COV to revalue intangible assets held for operational capacity without an active market could result in information that is not a faithful representation of the service potential embodied in the asset.

23. To illustrate our concern: Software systems are a common example of an intangible asset held by public sector entities in New Zealand. This includes software systems that were internally-developed or purchased several years ago. Internally-generated software tends to be specific to the entity, and as such it would not have an active market for it. For software that was purchased several years ago, there might not have a current active market either (even if there used to be at the time when it was purchased). The ED proposals would allow such software systems to be revalued using COV, based on the cost that the entity would incur to re-create the software system. This could have a large impact on the measurement of the abovementioned assets, and we are concerned that the resulting information may not be faithfully representative of the software's service potential and/or may not achieve appropriate reporting outcomes. That is:

    (a) Given the specialised nature of the software and/or the speed with which information technology develops, it could be challenging to determine the cost of replacing an older software system in a way that provides relevant and representationally faithful information about the existing asset.

(b) As noted in the Alternative View, there is a lack of clarity as to whether research costs that would have been excluded from the historical cost of an internally-generated software system should be included in its COV under the cost method. Different entities might reach different conclusions, which could negatively impact comparability. Also, the analysis for determining whether it is appropriate to include research costs in COV measurement does not seem to have been performed.

(c) Furthermore, as noted in the Alternative View, the challenges that exist in determining which costs to capitalise as intangible assets on initial recognition – including the challenge of distinguishing between the costs to maintain and enhance internally-generated goodwill vs costs relating specifically to the intangible assets – could also exist when determining the COV using the cost method for internally-generated (and some externally-purchased) software systems using the cost method. Again, different entities may reach different conclusions in this regard, affecting comparability. Also, there does not seem to be an analysis in place to determine whether different types of costs that may be incurred in relation to developing an intangible asset should or should not be appropriately included in COV measurement.

24. In summary, the 'active market restriction' currently provides a safeguard to the reliable measurement of intangible assets, and there is not yet enough evidence to support its removal for intangible assets held for operational capacity.

25. We recommend that the IPSASB undertake further analysis to understand the impact of allowing intangible assets held for operational capacity to be revalued at COV. It is possible that the addition of certain safeguards, e.g. restricting the ability to revalue using COV when there is no active market to certain types of intangible asset, or requiring compliance with certain condition for such revaluation to take place, could sufficiently enhance the reliability of COV measurement for intangible assets when there is no active market. However, it is difficult to determine whether this is the case, and what the appropriate safeguards would be, without undertaking further analysis in this regard.

26. We also agree with the Alternative View that some of the requirements and guidance for COV measurement are more readily applicable to tangible assets such as PP&E, and would be challenging to apply to intangible assets without further guidance. We recommend that the IPSASB considers developing such guidance, before introducing COV requirements into IPSAS 31.

27. As the IASB currently have an active project to comprehensively review the accounting requirements for intangible assets – which focuses not only on measurement of intangible assets, but on the broader aspects of accounting for these assets – it might be prudent to wait until the IASB has progressed this project further, rather than introducing COV into IPSAS 31 at this time. We do not believe there is clear rationale for departing from the IASB's requirements for intangible assets at this stage. Also, while the IPSASB would have to perform its own analysis on the implications and applicability of COV to intangible assets in the public sector (as the COV measurement basis is not included in IFRS Accounting Standards), we think that it would be beneficial to consider this holistically together with the other changes that the IASB decides to propose/implement for intangible assets, which could be useful in the public sector

– rather than changing one aspect of accounting for intangible assets (i.e. measurement) at this time.

28. As noted above, after undertaking further analysis, the IPSASB might decide that removing the 'active market restriction' for the revaluation at COV with certain additional safeguards in place would result in faithfully representative information and appropriate reporting outcomes. For example, the IPSASB might decide that this is the case for commodity-like intangible assets which are traded, albeit not within an active market. In that case, there could be an argument that a similar approach could be appropriate for the fair value measurement of assets held for financial capacity (e.g. fishing quota). This is another reason to wait for the IASB to further progress its project on intangible assets, and to consider the accounting for intangible assets held for operational and financial capacity together in a holistic manner.

Specific Matter for Comment 2:

Part 1 of this ED proposes that current operational value is an applicable subsequent current value measurement basis for right-of-use assets (i.e., assets in scope of IPSAS 43, Leases).

(a) Do you agree that current operational value can be applied to the subsequent measurement of right-of-use assets? If you do not agree, please explain your reasoning.

(b) If you agree with (a), do you agree that current operational value can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques)? If you do not agree please explain your reasoning.

Introduction of COV for the subsequent measurement of right-of-use assets held for operational capacity

29. We generally agree that in principle, COV could be an applicable current value measurement basis for right-of-use (ROU) assets held for operational capacity that are subsequently measured under the current value model in accordance with IPSAS 45.

30. On balance, we agree with the argument in proposed paragraph BC99–BC100 that the concept of discounting of cash flows is not strictly limited to the income approach, and that discounting of future lease payments for the purpose of revaluing a ROU asset can be consistent with COV measurement. That is, it could be argued that the sum of the discounted future lease payments is "the amount that the entity would pay for the remaining service potential" of the ROU asset – consistent with the definition of COV.

31. However, we would recommend clarifying the difference between the cost approach and market approach when determining the COV of a ROU asset – because the distinction between these two approaches seems to be different in the context of ROU assets compared to other assets. More information is included below.

    (a) Most assets, such as PP&E and intangible assets, can be acquired either by purchasing the asset on the (active) market, or by developing/producing/constructing the asset – which is consistent with the market approach and cost approach respectively. However, all ROU assets are acquired by entering into a lease agreement.

    (b) Paragraph BC99 states that "applying the market approach would require an entity to estimate the current operational value of a right-of-use asset by discounting observable lease payments of an identical or comparable right-of-use asset in an active market".

    (c) IPSAS 46 describes the cost approach to determining COV as "the cost to develop or produce the identical or similar asset." However, ROU assets are not "developed or produced" per se – they are acquired by entering into a lease agreement, either in an active market or in other circumstances.

    (d) Therefore, we presume that determining the COV of a ROU asset using the cost approach would also require an entity to discount lease payments for an identical or comparable

lease, like under the market approach – except that these hypothetical lease payments need not be observable in an active market.

(e) If our understanding is correct, it would be useful to explain this in the Basis for Conclusions. It would also be useful to explain the possible sources from which a lessee may obtain the inputs for determining the COV of a ROU asset using the cost approach.

32. In addition, we consider that it would be useful to provide application guidance on the COV measurement of ROU assets in an authoritative part of IPSAS 46 or IPSAS 43, rather than only in the Basis for Conclusions. We acknowledge that the revaluation of ROU assets to fair value can also be challenging in the for-profit sector, and there is not much guidance on the revaluation of ROU assets in IFRS Accounting Standards. However, the proposed guidance in paragraph BC99 in the Basis for Conclusions of IPSAS 46, as enhanced by our recommendations in the paragraph above, could be elevated from the Basis for Conclusions into, say, an Application Guidance appendix.

33. We also note that ED 90 proposes to clarify that COV does not include concessionary elements, such as a concession in a concessionary lease (paragraphs BC49A–BC49C). Considering this proposal, it is not clear to us how COV would be determined for a revalued ROU asset arising from a concessionary lease of a specialised asset where market rentals are not readily available. In New Zealand, we expect that such ROU assets are unlikely to be revalued, meaning that this is unlikely to cause major issues in practice here. However, the IPSASB may wish to consider and clarify this matter.

Specific Matter for Comment 3:

Do you agree with the replacement of value in use of a non-cash-generating asset by current operational value in the definition of recoverable service amount in IPSAS 21, Impairment of Non-Cash-Generating Assets, as proposed in Part 2 of this ED?

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its current operational value.

If you do not agree please explain your reasoning.

General comments

34. As a general comment: We consider that it would have been useful to explain to stakeholders the difference between COV and the current 'value in use' (VIU) methods in IPSAS 21, i.e. DRC, restoration costs and the service units approach – to help stakeholders understand how the proposed replacement of VIU with COV would change the determination of impairment.

35. We agree in principle that COV could appropriately replace VIU in IPSAS 21 as a branch of recoverable service amount for the purpose of impairment testing, noting that:

    (a) With COV being an entity-specific value, introducing COV as a branch of recoverable service amount is consistent with the main principle of impairment testing, i.e. reducing the asset's carrying amount to the higher of the asset's value to the entity in operation (COV) and the amount for which the asset could be sold (fair value); and

    (b) Replacing VIU with COV in IPSAS 21 has a cost/benefit advantage for preparers that adopt COV for revaluation of PP&E under IPSAS 45 *Property, Plant and Equipment*.

36. However, we have a potential concern about the proposal to specify in IPSAS 21 that the COV of a damaged asset that is not operable at the measurement date is zero. More details are included below.

Proposal to specify in IPSAS 21 that COV is zero when a damaged asset is not operable at year end

37. Currently, the recoverable service amount of damaged assets is often determined using the restoration cost approach, which is one of the approaches for determining VIU in IPSAS 21. Paragraph 48 of IPSAS 21 states that restoration cost is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. Therefore, if an asset is damaged and is not operable at year-end, the restoration cost of the asset is not necessarily zero – and if the restoration cost is not zero, then the recoverable service amount is not zero.

38. ED 90 proposes to replace VIU with COV in IPSAS 21 – and the proposed amendments to IPSAS 21 also specify that the COV of a damaged asset that is not operable at the measurement date is zero, as per paragraphs 39C, BC48, IG4A and IE36. Recoverable service amount would be determined as the higher of COV and fair value. So, if a damaged asset that is not operable at year-end has a fair value above zero, the asset would be impaired to its fair value, rather than to zero. However, Illustrative Example in paragraph IE36, which relates to a

damaged bridge, notes that the bridge cannot be sold, therefore the bridge is impaired to its COV of zero. By contrast, if the recoverable service amount of the bridge was determined based on the restoration cost approach, as per the current requirements in IPSAS 21, the bridge would not necessarily have been impaired to zero.

39. We acknowledge that the fact that the proposals may change current practice is not an issue in and of itself – and that in any case, as long as an asset has a fair value, the abovementioned change would not cause an impairment to zero.

40. However, we are concerned that the proposal to specify in IPSAS 21 that a damaged asset that is not operable at year end has a COV of zero is inconsistent with the COV measurement requirements in IPSAS 46 and IPSAS 45, and that it could lead to unintended consequences for revaluations of PP&E, as explained below.

    (a) IPSAS 45 requires that when an entity selects the current value model for a class of PP&E, PP&E assets held for operational capacity are revalued using COV, as per the COV requirements in IPSAS 46. IPSAS 46 requires entities to consider obsolescence, including physical obsolescence, when determining COV. Obsolescence reduces the COV of an asset. However, neither IPSAS 46 nor IPSAS 45 require COV to be zero if an asset is not operable due to physical damage – whereas this would be specifically required in IPSAS 21 under the ED proposals. It is not clear whether the requirement in IPSAS 21 that COV is zero if an asset is not operable at year end should be applied to the revaluation of PP&E using COV and other instances of COV measurement that are not related to impairment testing.

    (b) Suppose that a PP&E asset held for operational capacity is held under the current value model in IPSAS 45, and that the asset's carrying amount at the end of the prior year was \$100,000. The asset is damaged and is not operable at the end of the current year, but has a fair value of \$10,000. When applying the impairment requirements in IPSAS 21 as amended by the proposals in ED 90, the entity holding the asset would have to determine the asset's COV as zero, and impair it to its recoverable service amount, which is the fair value of \$10,000. However, IPSAS 45 requires revalued PP&E assets held for their operational capacity to be measured <u>at COV</u>, less subsequent depreciation and impairment losses. When considering the requirements in IPSAS 45, the entity may conclude that because the asset's COV is zero per the requirements in IPSAS 21, the asset's COV is also zero under IPSAS 45 (with the "less accumulated impairment loss" requirement becoming irrelevant). Therefore, carrying amount of the asset under IPSAS 45 would zero – even though the asset's recoverable service amount based on its fair value under IPSAS 21 is higher (\$10,000). We question whether this is an unintended consequence of the proposed paragraph 39C in IPSAS 21.

    (c) Alternatively, the entity in the situation described in (b) above may determine the COV of the asset under IPSAS 45 by reference to the physical obsolescence requirements in IPSAS 46, and may decide to reflect physical obsolescence by taking the cost of replacing the asset as if it were undamaged and deducting the cost of repairing the damage to the asset (similar to the current restoration cost approach). If the cost to replace the asset's remaining service potential assuming an undamaged state is \$100,000, and the cost to

repair the damage so that the asset is operable is $50,000, then COV would be $50,000. However, this would be inconsistent with COV as per the impairment requirements in IPSAS 21. There is a question as to which of these two approaches would result in more useful information about the asset.

41. In addition, the proposal that the COV of a damaged asset that is not operable at year end must be zero could have unintended consequences for the measurement of 'work in progress' inventory that is held for distribution at no charge or for a nominal charge. Such inventory would be measured at the lower of cost or COV under IPSAS 12. It is likely that work-in-progress inventory is not operable in its current state. If the same logic behind the proposed paragraph 39C in IPSAS 21 is also applied to 'work-in-progress' inventory, the COV of such inventory would be zero, therefore such inventory would always be measured at zero – which may not have been the IPSASB's intention, and may not provide the most useful information about the inventory.

42. We recommend that the IPSASB:

    (a) considers the above inconsistency and the potential consequences mentioned above;

    (b) clarifies with respect to the proposed requirement in IPSAS 21 that COV is zero for damaged assets that are not operable at year end:

        (i) whether this requirement applies in general to all COV measurement – in which case, an amendment to IPSAS 46 may be needed; and

        (ii) how this requirement interacts with the COV revaluation requirements in IPSAS 45.

Other comments

43. The wording of paragraph 10A in IPSAS 21 implies that for a revalued asset, whether the asset is impaired or not depends on whether the costs to sell the asset are negligible or not. This is true for assets that are revalued using fair value, but not for assets that are revalued using COV. Given that most revalued assets that are in the scope of IPSAS 21 would be revalued using COV, we recommend that the IPSASB amends this paragraph accordingly.

Other comments

Fair disclosure requirements

44. The following IPSASs require the disclosure of quantitative information on significant unobservable inputs for “fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs” – implying that the disclosure is required not only for Level 3 fair value measurements, but also for other types of fair value measurements that use unobservable inputs:

    - IPSAS 31, 123(c)
    - IPSAS 16, para 89(c)
    - IPSAS 27, para 46C(c)
    - IPSAS 30, para 30C(d)
    - IPSAS 38, para 57C(c)

45. For some of these paragraphs, ED 90 adds a reference to COV measurements estimated using unobservable inputs, but the reference to Level 3 fair value measurements *or* fair value measurements estimated using unobservable inputs still remains in those paragraphs.

46. The wording of the abovementioned paragraphs is inconsistent with the equivalent paragraph in IFRS 13 *Fair Value Measurement* (paragraph 93(d)) and in IPSAS 45 (paragraph 81(d)). The equivalent IFRS 13 and IPSAS 45 paragraphs require the abovementioned quantitative disclosure for fair value measurements categorised in Level 3, and in the case of IPSAS 45, for COV measurements estimated using unobservable inputs, but do *not* include an additional reference to fair value measurements estimated using unobservable inputs as distinct from Level 3 fair value measurements.

47. Similarly, in IPSAS 12, paragraphs 50C(d)-(f) require certain disclosures – including an opening-to-closing balance reconciliation and unrealised gains/losses – for “fair value measurements categorized within Level 3 of the fair value hierarchy, *or estimated using unobservable inputs*”. The reference to two ‘types’ of fair value measurement in this paragraph is inconsistent with the equivalent paragraphs in IFRS 13 and IPSAS 45, in the same way as described above.

48. If the above differences are not intentional, we recommend removing the reference to fair value measurements estimated using unobservable inputs, so that the refer only to Level 3 fair value measurements and, where appropriate, COV measurements estimated using unobservable inputs.

49. If the differences are intentional, we recommend explaining them in the Basis for Conclusions – and also explaining what types of non-Level-3 fair value measurements would be covered by the description “fair value measurements estimated using unobservable inputs” (considering that Level 2 fair value inputs are described as inputs that are observable, directly or indirectly, albeit not in an active market).

Proposed amendments to IPSAS 3

50. ED 90 proposes amendments to IPSAS 3, to specify that a change in the measurement model (i.e. a change from the cost model to the revaluation model and vice versa), rather than a change in the measurement basis, is a change in accounting policies. While we are comfortable with the proposal, we recommend that the IPSASB considers the following.

    (a) We recommend also specifying in the authoritative text of IPSAS 3 whether a change in the measurement basis (i.e. from COV to fair value and vice versa) is a change in accounting estimates or accounting policies. Proposed paragraph BC19 in the Basis for Conclusions of IPSAS 3 implies that a change in the measurement basis is a change in accounting estimates. If this is the IPSASB's intention, we recommend stating this in the authoritative text, for greater clarity. However, please also consider the point below.

    (b) We note that IPSAS 1 and IPSAS 3 refer to 'bases' or 'measurement bases' in the context of *accounting policies*. The definition of accounting policies in IPSAS 3 includes a reference to 'bases'. In IPSAS 1, para 132 says: "An entity shall disclose its significant accounting policies comprising: (a) The measurement basis (or bases) used in preparing the financial report […]". We think that the IPSASB should consider whether these paragraphs are consistent with the IPSASB's view that a change in the measurement basis is a change in accounting estimates, and whether any amendments or explanations in the Basis for Conclusions are required.

Retrospective application

51. Proposed paragraphs 51L in IPSAS 12 and 132P in IPSAS 31 require retrospective application of the proposed COV measurement requirements for inventory and intangible assets, without transitional provisions. This means that entities would need to do the following when applying the proposed amendments for the first time:

    (a) Requirements to measure inventory and intangible assets at COV on initial recognition if they are acquired in a non-exchange transaction and are held for operational capacity: For inventories and intangible assets that have the feature described above, and were held in the prior period and/or are held in the current period, entities would need to determine what these assets' COV was at the date of initial recognition, and restate comparatives accordingly.

    (b) Requirement to measure inventory held for distribution at no charge or for a nominal charge at the lower of cost and COV after initial recognition: For inventories with the abovementioned features that were held in the prior period, entities would need to determine their COV as at the end of the prior period, and would need to restate prior period information where the inventory's prior period COV was lower than cost.

    (c) Requirement to measure revalued intangible assets held for operational capacity at COV after initial recognition: For intangible assets with these features that were held in the prior period, entities would need to determine their COV as at the end of the prior period and restate the prior period information when COV differs from the previous fair value carrying amount (presumably this would not be required for intangible assets that were

previously held under the cost model but will be revalued using COV under the proposed amendments).

52. We note that IPSAS 45, which introduced COV measurement requirements for PP&E, also required retrospective application – but it included the following transitional provisions:

(a) If, on the initial application of IPSAS 45, there is a difference between the asset's previous carrying amount at fair value and its new carrying amount at COV (or at fair value as per the updated definition), the entity is not required to restate comparative information for this difference and may instead recognise the difference in opening accumulated surplus or deficit, i.e. within opening net assets/equity.

(b) Regarding the requirement to measure a PP&E asset at COV on initial recognition if it was received in a non-exchange transaction and is held for operational capacity: This requirement needs to be applied only to future transactions, i.e. prospectively.

53. If the IPSASB proceeds with introducing the proposed COV measurement requirements into IPSAS 12 and IPSAS 31, we recommend providing prepares with similar transitional relief as was provided in IPSAS 45, to avoid unnecessary costs and potential lack of relevance and representational faithfulness due to the uncertainty associated with obtaining COV measurements for prior periods.

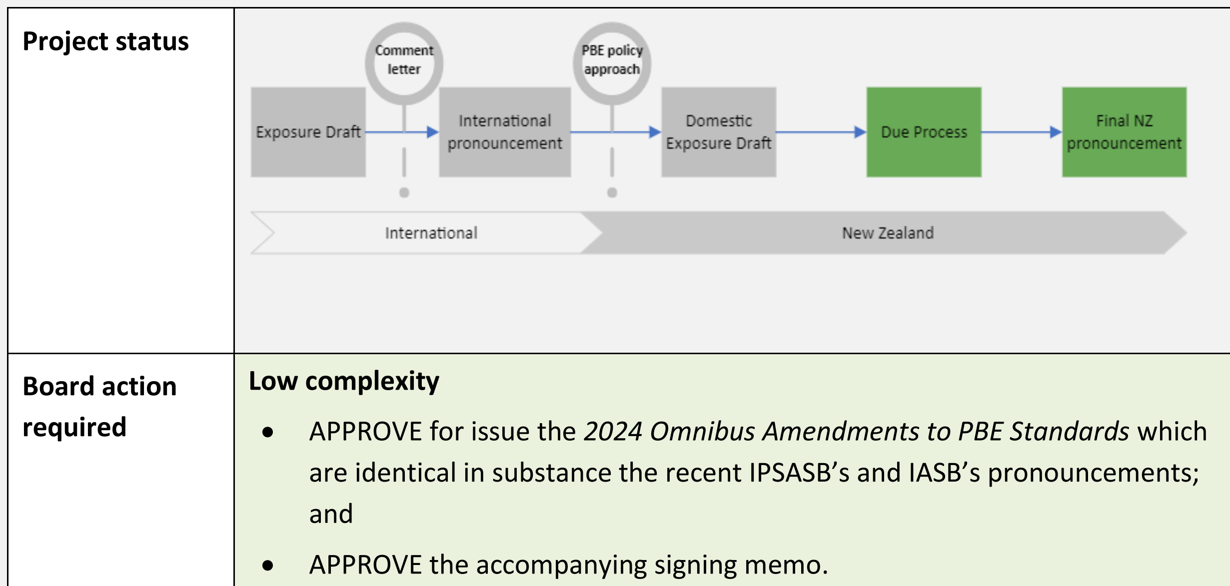
Date:	4 October 2024
To:	NZASB Members
From:	Tereza Bublikova
Subject:	**2024 Omnibus Amendments to PBE Standards**

COVER SHEET

Project priority and complexity

Project purpose	To incorporate into PBE Standards recent narrow-scope amendments issued by the IPSASB and the IASB.
Cost/benefit considerations	Please refer to the relevant section of this memo.
Project priority	**Low** This project aims to incorporate into PBE Standards certain recent IPSASB and IASB amendments that are relatively narrow in scope, via an 'omnibus' amending standard.

Overview of agenda item

Project status	
Board action required	**Low complexity** • APPROVE for issue the *2024 Omnibus Amendments to PBE Standards* which are identical in substance the recent IPSASB's and IASB's pronouncements; and • APPROVE the accompanying signing memo.

Purpose and introduction[1]

1. The purpose of this memo is to seek the Board's approval to issue the amending standard *2024 Omnibus Amendments to PBE Standards* (the Final Standard) which amends:

   (a) PBE IPSAS 1 *Presentation of Financial Reports*; and

   (b) PBE IAS 12 *Income Taxes*.

Recommendation

2. We recommend that the Board:

   (a) **APPROVE** for issue *2024 Omnibus Amendments to PBE Standards*; and

   (b) **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue *2024 Omnibus Amendments to PBE Standards*.

Structure of this memo

3. This memo includes the following sections.

   (a) Background

   (b) Summary of the amendments

   (c) Due process

   (d) Cost/benefit considerations

   (e) Draft amending standard and signing memorandum

   (f) Question for the Board

Background

4. In May 2024, the NZASB issued for public consultation the Exposure Draft 2024-3 *2024 Omnibus Amendments to PBE Standards* (the ED).

5. The ED proposed the following narrow-scope amendments:

   (a) amendments to PBE IPSAS 1 which are closely based on the IPSASB's amendments to IPSAS 1 introduced by *Improvements to IPSAS, 2023* which, in turn, are aligned with IASB's *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants*; and

   (b) amendments to PBE IAS 12 which are based on *Tax Reform—Pillar Two Model Rules (Amendments to NZ IAS 12),* issued by NZASB for for-profit entities in July 2023, which were closely based on IASB amendments.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

Summary of the amendments

6. The amendments introduced by the Final Standard are summarised in paragraphs 2 – 10 of the agenda item 6.3 and in the Appendix 1 of this paper.

7. The mandatory date of the Final Standard is:

   (a) 1 January 2026, for the amendments to PBE IPSAS 1, with application permitted for an 'early adoption accounting period'; and

   (b) 1 January 2024, for the amendments to PBE IAS 12, except of the temporary exception to the requirements in PBE IAS 12 related to Pillar Two income taxes, which is applicable on the date that the amending standard takes effect.

8. The Final Standard does not introduce new RDR concessions into PBE Standards. Please refer to rationale in paragraphs 20 - 21 of the agenda item 6.3.

Due process

9. *2024 Omnibus Amendments to PBE Standards* are based on amendments previously issued by the IPSASB and IASB. Those amendments were subject to the IPSASB's and IASB's respective due processes.

10. The NZASB agreed not to comment on either of these proposals as they were being consulted upon by the IPSASB and IASB (ED 85 *Improvements to IPSAS, 2023* and ED/2023/1 *International Tax Reform—Pillar).*

11. The NZASB approved the ED for issue at its May 2024 meeting. The ED was published on the XRB's website on 14 May 2024, with comments closing on 15 August 2024. We included a link to the ED in Accounting Alerts to raise awareness among New Zealand constituents.

12. The NZASB did not receive any comments from constituents on the ED. As a result, the final amendments are identical to those included in the ED.

13. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

14. In accordance with section 22(2) of the Financial Reporting Act 2013, we have considered the Final Standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Cost/benefit considerations

15. The amendments introduced by the Final Standard are narrow in scope and therefore, we expect minimal application costs for PBE preparers. No comments were received from constituents to raise a concern regarding the cost of implementing.

16. Improved consistency in the classification of liabilities as current or non-current, provided through the amendments to PBE IPSAS 1, is useful in both for-profit and PBE entities. The alignment of the PBE and for-profit requirements will also reduce application costs for the mixed group entities.

17. The amendments to PBE IAS 12, related to a temporary exemption to the *Tax Reform—Pillar Two Model Rules*, provide affected PBEs with the same accounting relief as affected for-profit entities. While we are not aware of PBEs affected by the OECD Pillar Two tax rules, such PBEs may exist in the future.

Draft amending standard and signing memorandum

18. The final draft of the amending standard *2024 Omnibus Amendments to PBE Standards* is attached as agenda item 6.2.

19. The draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board is attached as agenda item 6.3.

Question for the Board

Q1. Does the Board **APPROVE** for issue *2024 Omnibus Amendments to PBE Standards*?

Q2. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue the amending standard?

Attachments

Agenda item 6.2 – Final draft *2024 Omnibus Amendments to PBE Standards*.

Agenda item 6.3 – Draft signing memorandum

Appendix 1: Summary of amendments

The amendments below were included in the ED *2024 Omnibus Amendments to PBE Standards* and are unchanged in the final draft of *2024 Omnibus Amendments to PBE Standards*.

Table 1 Summary of proposed amendments to PBE IPSAS 1 – based on IPSASB amendments

Amendments to PBE IPSAS 1 – aligned with IPSASB amendments	Ref
Right to defer settlement for at least twelve months In PBE IPSAS 1, the right to defer the settlement of a liability for at least 12 months after the reporting date is one of the criteria for classifying a liability as non-current. The amendments clarify the following with respect to this requirement: (a) The classification of liabilities as either current or non-current is based on *the entity's rights at the end of the reporting period*, meaning *only rights in place at the reporting date* should affect this classification. (b) If the entity's right to defer settlement of the liability for at least 12 months after the reporting date depends on compliance with specified conditions, referred to as 'covenants', such covenants affect the liability's classification as current or non-current *only if the entity is required to comply with the covenant on or before the reporting date*. The key consideration is the time at which compliance with the covenant is required, not the time when compliance is assessed. For example: (i) A covenant based on the entity's financial position at the reporting date but assessed for compliance only after the reporting date would be taken into account when classifying the liability as current or non-current. (ii) A covenant based on the entity's financial position six months after the reporting date would not be taken into account when classifying the liability as current or non-current. (c) Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date.	Para 80(d), 83A – 86A
Meaning of "settlement" In PBE IPSAS 1, the criteria for classifying a liability as current or non-current depend on the timing of the *settlement* of the liability – for example, these criteria refer to settlement within the entity's normal operating cycle or within 12 months of the reporting date, etc. The amendments clarify that '*settlement*' refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of: (a) A transfer of cash or other resources—for example, goods or services; or (b) A transfer of the entity's own equity instruments (e.g. shares) – except that when the counterparty has an option to request the entity to transfer its own equity instruments as settlement, and that option is classified as an equity instrument and recognised separately from the liability as an equity component of a compound financial instrument, in such case the option does not affect classification of liability as current or non-current.	Para 87B - 87C
New disclosure requirements When the entity's right to defer settlement of liabilities is subject to the entity *complying with covenants within 12 months after the reporting date*, and when the entity *classifies those liabilities as non-current*, the amendments require the entity to disclose information that	Para 87A

Amendments to PBE IPSAS 1 – aligned with IPSASB amendments	Ref
enables users of financial statements to understand the *risk that the liabilities could become repayable within 12 months after the reporting date*, including: (a) Information about the covenants and the carrying amount of related liabilities; and (b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.	

Table 2 Summary of proposed amendments to PBE IAS 12 – based on IASB amendments

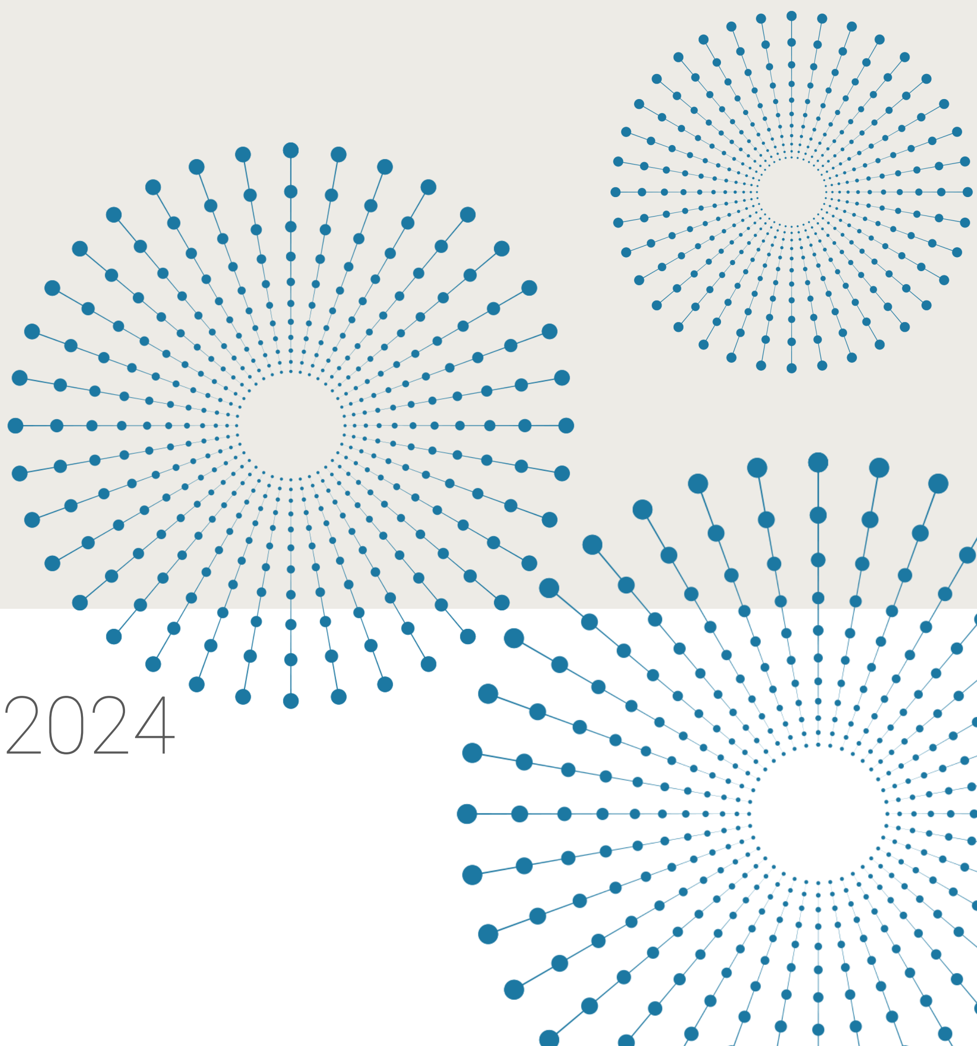
Amendments to PBE IAS 12 – aligned with IASB amendments	Ref
Temporary exemption The amendments provide PBE entities with a temporary exception to the requirements in PBE IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.	Para 4A
New disclosure requirements The amendments require entities to: • Disclose that it has applied the above mentioned temporary exception; • Disclose separately its current tax expense (or income) related to Pillar Two income taxes; and • Disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation – this disclosure is required *only in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect*.	Para 88A – 88D

Agenda item 6.2

Te Kāwai Ārahi Pūrongo Mōwaho
XRB EXTERNAL REPORTING BOARD

2024 Omnibus Amendments to PBE Standards

Amendments to PBE IPSAS 1 and PBE IAS 12



Issued October 2024

2024 Omnibus Amendments to PBE Standards

Issued October 2024

This amending Standard has been issued to amend the relevant Tier 1 and Tier 2 PBE Standards as a result of:

(a) amendments arising from *Improvements to IPSAS, 2023*; and

(b) amendments arising from *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)*.

In finalising this amending Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This amending Standard was issued on XX October 2024 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on XX October 2024 and takes effect on XX November 2024

Commencement and application

The amendments to PBE IPSAS 1 *Presentation of Financial Reports* introduced by this amending Standard have a mandatory date of 1 January 2026, meaning they must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of amendments to PBE IPSAS 1 to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraphs 154.21 – 154.23 of this amending Standard.

The amendments to paragraphs 4A and 88A of PBE IAS 12 *Income Taxes* introduced by this amending Standard must be applied by Tier 1 and Tier 2 PBEs for accounting periods that end on or after the date that this amending Standard takes effect (see paragraph 98.16).

Except for paragraphs 4A and 88A, the amendments to PBE IAS 12 introduced by this amending Standard has a mandatory date of 1 January 2024, meaning they must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date (see paragraph 98.15(b)).

DRAFT

COPYRIGHT

© External Reporting Board (XRB) 2024

This XRB standard contains International Financial Reporting Standards (IFRS®) Foundation copyright material. It also reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Public Sector Accounting Standards Board (IPSASB), and published by IFAC. Reproduction of the copyright material within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz. and the IFRS Foundation at the following email address: permissions@ifrs.org.

All existing rights (including copyrights) in this material outside of New Zealand are reserved by the IFRS Foundation and IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information and requests for authorisation to reproduce the IFRS copyright material for commercial purposes outside New Zealand should be addressed to the IFRS Foundation. Further information and requests for authorisation to reproduce the IFAC copyright material for commercial purposes outside New Zealand can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

ISBN: XXX

Copyright

IFRS Accounting Standards are issued by the
International Accounting Standards Board
Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.
Tel: +44 (0) 20 7246 6410
Email: info@ifrs.org Web: www.ifrs.org

Copyright © International Financial Reporting Standards Foundation All rights reserved.

Reproduced and distributed by the External Reporting Board with the permission of the IFRS Foundation.

This English language version of the IFRS Accounting Standards is the copyright of the IFRS Foundation.

1. The IFRS Foundation grants users of the English language version of IFRS Accounting Standards (Users) the permission to reproduce the IFRS Accounting Standards for

   (i) the User's Professional Use, or
   (ii) private study and education

   Professional Use: means use of the English language version of the IFRS Accounting Standards in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS Accounting Standards for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

   For the avoidance of doubt, the abovementioned usage does not include any kind of activities that make (commercial) use of the IFRS Accounting Standards other than direct or indirect application of IFRS Accounting Standards, such as but not limited to commercial seminars, conferences, commercial training or similar events.

2. For any application that falls outside Professional Use, Users shall be obliged to contact the IFRS Foundation for a separate individual licence under terms and conditions to be mutually agreed.

3. Except as otherwise expressly permitted in this notice, Users shall not, without prior written permission of the Foundation have the right to license, sublicense, transmit, transfer, sell, rent, or otherwise distribute any portion of the IFRS Accounting Standards to third parties in any form or by any means, whether electronic, mechanical or otherwise either currently known or yet to be invented.

DRAFT

4. Users are not permitted to modify or make alterations, additions or amendments to or create any derivative works, save as otherwise expressly permitted in this notice.

5. Commercial reproduction and use rights are strictly prohibited. For further information please contact the IFRS Foundation at permissions@ifrs.org.

The authoritative text of IFRS Accounting Standards is that issued by the International Accounting Standards Board in the English language. Copies may be obtained from the IFRS Foundation's Publications Department.

Please address publication and copyright matters in English to:
IFRS Foundation Publications Department
Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.
Tel: +44 (0) 20 7332 2730 Fax: +44 (0) 20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

Trade Marks

The Foundation has trade marks registered around the world including 'IAS®', 'IASB®', the IASB® logo, 'IFRIC®', 'IFRS®', the IFRS® logo, 'IFRS for SMEs®', the IFRS for SMEs® logo, the 'Hexagon Device', 'International Accounting Standards®', 'International Financial Reporting Standards®', 'NIIF®', 'SIC®', 'ISSB™' and 'SASB®'. Further details of the Foundation's trade marks are available from the Foundation on request.

Disclaimer

The authoritative text of the IFRS Accounting Standards is reproduced and distributed by the External Reporting Board in respect of their application in New Zealand. The International Accounting Standards Board, the Foundation, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

DRAFT

CONTENTS

		from page
PART A:	**INTRODUCTION**	4
PART B:	**SCOPE**	4
PART C:	**AMENDMENTS ARISING FROM *IMPROVEMENTS TO IPSAS, 2023***	4
	• **PBE IPSAS 1 *PRESENTATION OF FINANCIAL REPORTS***	4
PART D:	**AMENDMENTS ARISING FROM *INTERNATIONAL TAX REFORM – PILLAR TWO MODEL RULES***	7
	• **PBE IAS 12 *INCOME TAXES***	8

DRAFT

DRAFT

Part A – Introduction

This Standard includes amendments for the following.

(a) Amendments arising from *Improvements to IPSAS, 2023*. The amendments relate to PBE IPSAS 1 *Presentation of Financial Reports*, and

(b) Amendments arising from *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)*. The amendments relate to PBE IAS 12 *Income Taxes*.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part C – Amendments arising from *Improvements to IPSAS, 2023*

PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 83A, 83B, 86A, 87A, 87B, 87C, and 154.20 – 154.23 are added. Paragraphs 70, 80, 82, 84, 85, and 87 are amended. New headings are inserted before paragraphs 81, 82, 83A, and 87A. New text is underlined and deleted text is struck through. Paragraphs 81, 83, and 86 are not amended but have been included for ease of reference.

...

Structure and Content

...

Statement of Financial Position

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76–87C, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

...

Current Liabilities

80. **A liability shall be classified as current when it satisfies any of the following criteria:**

    (a) **It is expected to be settled in the entity's normal operating cycle;**

    (b) **It is held primarily for the purpose of being traded;**

    (c) **It is due to be settled within twelve months after the reporting date; or**

    (d) **The entity does not have ~~an unconditional~~ the right at the reporting date to defer settlement of the liability for at least twelve months after the reporting date ~~(see paragraph 84). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.~~**

    All other liabilities shall be classified as non-current.

Normal Operating Cycle (paragraph 80(a))

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Held Primarily for the Purpose of Trading (paragraph 80(b) or Due to be Settled within Twelve Months (paragraph 80(c))

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities classified as held for trading in accordance with PBE IPSAS 29, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs ~~85 and 86~~ 83A–86.

83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

    (a) The original term was for a period longer than twelve months; and

    (b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

Right to Defer Settlement for at Least Twelve Months (paragraph 80(d))

83A. An entity's right to defer settlement of a liability for at least twelve months after the reporting date must have substance and, as illustrated in paragraphs 83B–86, must exist at the reporting date.

83B. An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting date may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 80(d), such covenants:

    (a) Affect whether that right exists at the reporting date—as illustrated in paragraphs 85–86—if an entity is required to comply with the covenant on or before the reporting date. Such a covenant affects whether the right exists at the reporting date even if compliance with the covenant is assessed only after the reporting date (for example, a covenant based on the entity's financial position at the reporting date but assessed for compliance only after the reporting date).

    (b) Do not affect whether that right exists at the reporting date if an entity is required to comply with the covenant only after the reporting date (for example, a covenant based on the entity's financial position six months after the reporting date).

84. If an entity ~~expects, and~~ has the ~~discretion,~~ right, at the reporting date to ~~refinance or~~ roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance),~~ If the entity has no such right, the entity does not consider the potential to refinance ~~is not considered~~ and classifies the obligation ~~is classified~~ as current.

85. When an entity breaches ~~an undertaking~~ a covenant ~~under~~ of a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have ~~an unconditional~~ the right to defer its settlement for at least twelve months after that date.

DRAFT

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

86A. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date. If a liability meets the criteria in paragraph 80 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting date, or even if the entity settles the liability between the reporting date and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 29(c) and 87(d)).

87. ~~In respect of loans classified as current liabilities, if~~ If the following events occur between the reporting date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with PBE IPSAS 14 *Events After the Reporting Date*:

(a) Refinancing on a long-term basis of a liability classified as current (see paragraph 83);

(b) Rectification of a breach of a long-term loan agreement classified as current (see paragraph 85); ~~and~~

(c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ~~ending at least twelve months after the reporting date.~~ classified as current (see paragraph 86); and

(d) Settlement of a liability classified as non-current (see paragraph 86A).

87A. In applying paragraphs 80–86, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date (see paragraph 83B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:

(a) Information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.

(b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the reporting date.

Settlement (paragraphs 80(a), 80(c) and 80(d))

87B. For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

(a) Cash or other resources—for example, goods or services; or

(b) The entity's own equity instruments, unless paragraph 87C applies.

87C. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying PBE IPSAS 28 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

...

~~Effective Date~~ Commencement and Application

...

2024 Omnibus Amendments to PBE Standards

154.20 The amending Standard *2024 Omnibus Amendments to PBE Standards*, issued in October 2024 added paragraphs 83A, 83B, 86A, 87A, 87B, and 87C and amended paragraphs 70, 80, 82, 84, 85, and 87. An entity shall apply those amendments as if they have always been applied, in accordance with PBE IPSAS 3, in accordance with the commencement and application date provisions in paragraphs

DRAFT

154.21-154.23. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

When the amending Standard takes effect (section 27 Financial Reporting Act 2013)

154.21 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on XX October 2024 and takes effect on XX November 2024.

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act 2013)

154.22 The accounting periods in relation to which this amending Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

154.23 In paragraph 154.22:

Early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) For which the early adopter:

(i) First applies this amending Standard in preparing its financial report; and

(ii) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

Mandatory date means 1 January 2026.

Paragraph BC43 and the related heading are added. New text is underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 1.

…

2024 Omnibus Amendments to PBE Standards

BC43. *Classification of Liabilities as Current and Non-current* and *Non-current Liabilities with Covenants*, issued by the IASB in January 2020 and October 2022 respectively, amended IAS 1 *Presentation of Financial Statements*. The amendments clarify the principles related to the right to defer settlement for at least twelve months (with or without covenants), and the meaning of 'settlement' when a liability is rolled over under an existing loan facility, for the purpose of classifying liabilities as current or non-current. The IPSASB subsequently made equivalent amendments to IPSAS 1 *Presentation of Financial Statements*, by issuing *Improvements to IPSAS, 2023* in April 2024. The NZASB amended PBE IPSAS 1 in October 2024, by issuing *2024 Omnibus Amendments to PBE Standards*.

Part D – Amendments arising from *International Tax Reform—Pillar Two Model Rules*

PBE IAS 12 *Income Taxes*

Paragraphs 4A, 88A – 88D and 98.14 – 98.16 are added including their related heading and the box after paragraph 88D. For ease of reading, new text is not underlined.

...

Scope

...

4A. This Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the income taxes arising from it, are hereafter referred to as 'Pillar Two legislation' and 'Pillar Two income taxes'. As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

...

Disclosure

...

International tax reform—Pillar Two model rules

88A An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).

88B An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.

88C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

88D To meet the disclosure objective in paragraph 88C, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Examples illustrating paragraphs 88C–88D

Examples of information an entity could disclose to meet the objective and requirements in paragraphs 88C–88D include:

(a) qualitative information such as information about how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and

(b) quantitative information such as:

(i) an indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or

(ii) an indication of how the entity's average effective tax rate would have changed if Pillar Two legislation had been in effect.

DRAFT

…

~~Effective Date~~ Commencement and application

…

2024 Omnibus Amendments to PBE Standards

98.14 The amending Standard *2024 Omnibus Amendments to PBE Standards*, issued in October 2024 added paragraphs 4A and 88A–88D.

98.15 An entity shall:

(a) apply paragraphs 4A and 88A on the date that this amending Standard takes effect (see paragraph 98.16) and for annual reporting periods that have not ended or do not end before that date. An entity shall apply those paragraphs as if they had always been applied, in accordance with PBE IPSAS 3; and

(b) apply paragraphs 88B–88D for annual reporting periods beginning on or after 1 January 2024 but have not ended or do not end before this amending Standard takes effect (see paragraph 98.16). An entity is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 December 2024.

When the amending Standard takes effect (section 27 Financial Reporting Act 2013)

98.16 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on XX October 2024 and takes effect on XX November 2024.

Paragraph BC11 and the related heading are added. For ease of reading, new text is not underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IAS 12

…

2024 Omnibus Amendments to PBE Standards

BC11. *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)* issued by IASB in May 2023 gave entities temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The NZASB subsequently amended NZ IAS 12 *Income Taxes* by issuing *International Tax Reform—Pillar Two Model Rules* in July 2023. PBE IAS 12 is based on NZ IAS 12. The NZASB therefore made equivalent amendments to PBE IAS 12, by issuing *2024 Omnibus Amendments to PBE Standards* in October 2024.

DRAFT

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	15 October 2024
To:	Michele Embling, Chair External Reporting Board
From:	Carolyn Cordery, Chair NZASB
Subject:	***2024 Omnibus Amendments to PBE Standards***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue *2024 Omnibus Amendments to PBE Standards* which amends:
   - PBE IPSAS 1 *Presentation of Financial Reports*; and
   - PBE IAS 12 *Income Taxes.*

Amendments to PBE IPSAS 1

2. The amendments to PBE IPSAS 1 are closely based on the IPSASB's amendments to IPSAS 1 introduced by their amending standard *Improvements to IPSAS, 2023*. This in turn, aligned with the IASB's *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants*.

3. The amendments to PBE IPSAS 1 clarify the principles for classifying a liability as either current or non-current and introduces new disclosure requirements.

4. In PBE IPSAS 1, the right to defer the settlement of a liability for at least 12 months after the reporting date is one of the criteria for classifying a liability as non-current. The amendments clarify that:
   (a) The classification of liabilities is based on *the entity's rights at the end of the reporting period*.
   (b) If the entity's right to defer depends on compliance with specified covenants, the liability's classification is impacted *only if the entity is required to comply with the covenant on or before the reporting date*.
   (c) The classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer the liability.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

5. The criteria for classifying a liability also depend on the timing of the *settlement* of the liability. The amendments clarify that '*settlement*' refers to a transfer to the counterparty that results in the extinguishment of the liability.

6. The amendments require new disclosures to inform users of the risks of non-current liabilities becoming payable within 12 months, when an entity classifies liabilities as non-current, but the right to defer settlement of liabilities is subject to *complying with covenants within 12 months after the reporting date.*

Amendments to PBE IAS 12

7. The amendments to PBE IAS 12 provide PBEs a temporary exemption to the requirements in PBE IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Organisation for Economic Co-operation and Development (OECD)'s '*Tax Reform—Pillar Two Model Rules*'[2]; and introduces new disclosure requirements.

8. Those amendments are based on *Tax Reform—Pillar Two Model Rules (Amendments to NZ IAS 12),* issued by NZASB for affected for-profit entities in July 2023, which were based on IASB amendments.

9. The temporary exemption for affected for-profit entities allows stakeholders time to assess the impact of the Pillar Two legislation which was enacted in several jurisdiction within a short period, and to avoid diverse accounting interpretations.

10. The amendments to PBE IAS 12 require entities to:

    (a) Disclose that it has applied the temporary exception;

    (b) Disclose separately its current tax expense (or income) related to Pillar Two income taxes; and

    (c) Disclose information that helps users understand the entity's exposure to Pillar Two income taxes arising from that legislation.

Benefits to New Zealand constituents

11. The amendments introduced are narrow in scope and therefore, we expect limited application costs for PBE preparers.

[2] In October 2021, more than 135 countries and jurisdictions, including New Zealand, agreed to join the OECD-sponsored "Inclusive Framework" that includes a two-pillar solution to address tax challenges arising from the increasing globalisation and digitalisation of the global economy. This major international tax reform introduces a global minimum tax for large multinational enterprises. In March 2024, the New Zealand Government has enacted legislation to implement the OECD's Pillar Two Model Rules ('the Rules') in New Zealand.

12. Improved consistency in the classification of liabilities as current or non-current, provided through the amendments to PBE IPSAS 1, is useful in both for-profit and PBE entities. The alignment of the PBE and for-profit requirements will also reduce application costs for the mixed group entities.

13. The amendments to PBE IAS 12, related to the Tax Reform—Pillar Two Model Rules, provide impacted PBEs with the same accounting relief as impacted for-profit entities. While we are not aware of PBEs affected by the OECD Pillar Two tax rules, such PBEs may exist in the future.

Due process

14. *2024 Omnibus Amendments to PBE Standards* are based on amendments previously issued by the IPSASB and IASB. Those amendments were subject to the IPSASB's and IASB's respective due processes.

15. The NZASB agreed not to comment on either these proposals as they were being consulted upon by the IPSASB and IASB (ED 85 *Improvements to IPSAS, 2023* nor ED/2023/1 *International Tax Reform—Pillar).*

16. The NZASB approved the ED 2024-3 *2024 Omnibus Amendments to PBE Standards* (ED) for issue at its May 2024 meeting. The ED was published on the XRB's website on 14 May 2024, with comments closing on 15 August 2024. We included a link to the ED in Accounting Alerts to raise awareness among New Zealand constituents.

17. The NZASB did not receive any comments from constituents on the ED. As a result, the final amendments are identical to those included in the ED.

18. The NZASB has approved *2024 Omnibus Amendments to PBE Standards* in October 2024. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

19. In accordance with section 22(2) of the Financial Reporting Act 2013, the NZASB considers the amending standard does not include requirements that would result in the disclosure of personal information. Therefore, no consultation with the Privacy Commissioner is required.

Reduced Disclosure Regime (RDR) concessions

20. The amending standard introduces new disclosure requirements to both PBE IPSAS 1 and PBE IAS 12. The NZASB noted that the equivalent for-profit amendments *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants* and *Tax Reform—Pillar Two Model Rules* did not include RDR concessions for those disclosures.

21. The NZASB did not identify any PBE-specific reason for providing RDR concessions to Tier 2 PBEs. Therefore, the amending standard does not introduce any new RDRs for Tier 2 PBEs

Consistency with XRB Financial Reporting Strategy

22. This amending standard will be applicable for Tier 1 and Tier 2 PBEs.

23. The issuance of this amending standard is consistent with the current Financial Reporting Strategy. It aligns with international standards (i.e. the IPSASB and IASB amendments) and is consistent with the Accounting Standards Framework.

Commencement and application date

24. The amending standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The standard is expected to be published on XX October 2024 and take effect on XX November 2024.

Amendments to PBE IPSAS 1

25. An entity that is not an early adopter is required to apply the amendments to PBE IPSAS 1 for accounting periods beginning on or after 1 January 2026.

26. Application is permitted for an 'early adoption accounting period' when that period begins before the mandatory date but has not ended or does not end before this amending standard takes effect.

Amendments to PBE IAS 12

27. An entity is required to apply the amending standard for accounting periods beginning on or after 1 January 2024,[3] but which do not end before the amending standard takes effect.

28. The temporary exception to the requirements in PBE IAS 12 will be applicable on the date that this amending standard takes effect, for periods not ended before that date.

29. For any interim period ending on or before 31 December 2024, an entity is not required to provide disclosure requirements other than that it has applied the exception.

Other matters

30. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

[3] We note that the OECD Pillar Two rules were enacted in New Zealand in March 2024, and apply for fiscal years beginning on or after 1 January 2025.

Recommendation

31. The NZASB recommends that you sign the attached certificate of determination and approval certificate on behalf of the XRB Board.

Attachments

- *2024 Omnibus Amendments to PBE Standards*
- Certificate of Determination
- Approval Certificate

Carolyn Cordery
Chair NZASB

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 7.1

Memorandum

Date:	4 October 2024
To:	NZASB Members
From:	Leana van Heerden and Carly Berry
Subject:	**Cover memo – IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses***

COVER SHEET

Project priority and complexity

Project purpose	**IPSASB perspective:** *Revenue* – establish a cohesive approach to account for revenue transactions by replacing the three existing revenue standards with a unified framework. *Transfer expenses* – develop a standard that provides recognition and measurement requirements applicable to providers of transfer expenses. **XRB perspective:** Develop new PBE Standards for revenue and transfer expenses using IPSAS 47 and IPSAS 48 as respective starting points, while also ensuring that the standards are fit-for-purpose in New Zealand.
Cost/benefit considerations	The cost/benefit considerations of these projects were covered at the June 2023 NZASB meeting.
Project priority	**High** IPSAS 47 and IPSAS 48 introduces new accounting models for revenue and transfer expense focused on whether or not a binding arrangement exists. As Revenue and Transfer Expenses are prevalent and significant across both the public and NFP sectors, the PBE Standards need to be fit-for-purpose in New Zealand.

Overview of agenda item

Project status	Consultation Paper → (Comment letter) → Exposure Draft → (Comment letter) → International pronouncement → (PBE policy approach) → **Domestic Exposure Draft** → Due Process → Final NZ pronouncement International / New Zealand
Board action required	**Medium complexity** Provide FEEDBACK on the draft EDs and AGREE with our recommendations.

Introduction and purpose

1. The Revenue and Transfer Expenses projects were added to the work plan in June 2023, when the Board agreed to develop new PBE Standards for revenue and transfer expenses, using IPSAS 47 and IPSAS 48 as respective starting points. A key objective of both projects is to ensure that these new PBE Standards are fit-for-purpose in New Zealand.

2. In this agenda item, we are presenting the Board with the draft ED PBE IPSAS 47 *Revenue* and draft ED PBE IPSAS 48 *Transfer Expenses*. This is the first time that the Board will have the opportunity to review and discuss these draft EDs. In addition to the draft EDs, we are also presenting our recommendations on topics that have not yet been considered by the Board.

Structure of this memo

3. The remaining section of this memo are:

Project status update

Content of agenda item 7

Involvement of the Drafting Support Group

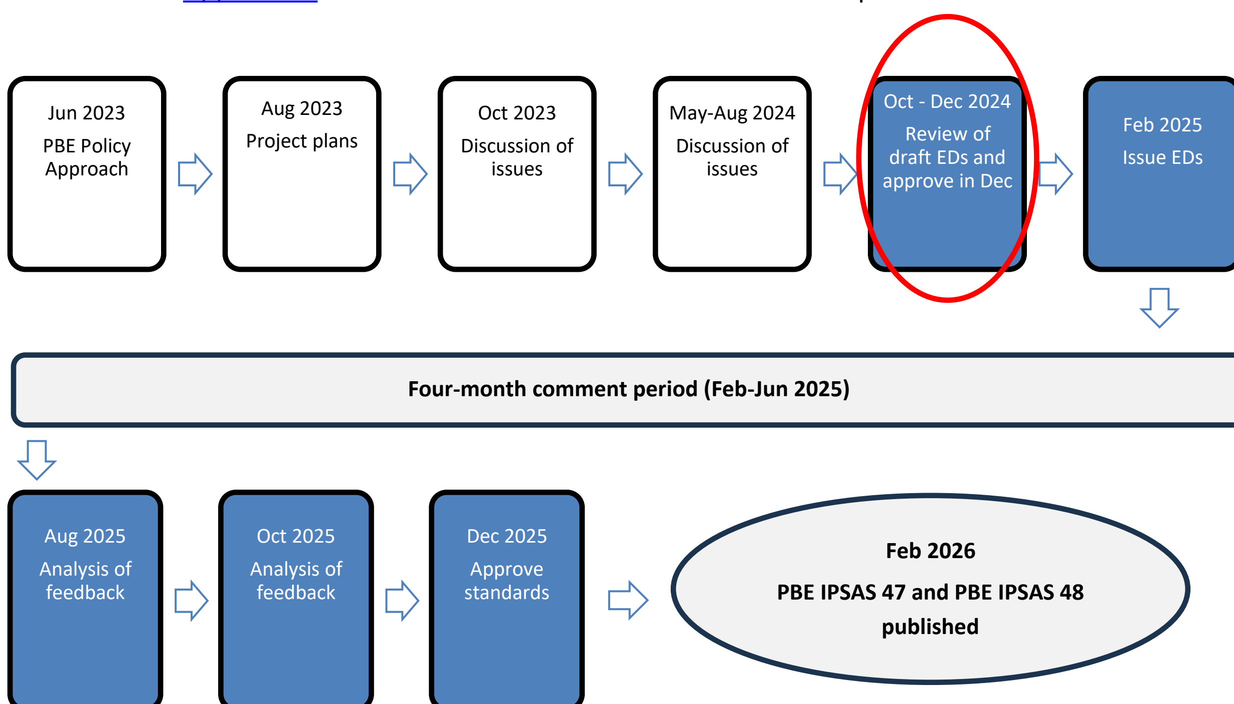
Next steps

Appendix 1: Detailed timeline of planned actions

Project status update

Timeline summary and current phase

4. The diagram below sets out Board actions relating to the Revenue and Transfer Expenses projects at previous and future Board meetings, marked in white and blue respectively. Also refer to Appendix 1 which includes a more detailed timeline and planned actions.



Status of topics of concern

5. The draft EDs take into account all Board decisions made to date, as well as our recommendations on topics that the Board will consider at this meeting. The table below tracks the topics of concern and their coverage to date[1].

Topic	IPSAS 47 and/ or IPSAS 48	Covered	Date covered
Binding arrangement principle (incl. enforceability)	Both	✔	19 Oct 23 & 9 May 24
Compliance obligation	IPSAS 47	✔	19 Oct 23
Transfer right asset recognition	IPSAS 48	✔	19 Oct 23
Revenue transaction liability recognition	IPSAS 47	✔	13 Jun 24
Multi-year funding & capital transfers	Both	✔	13 Jun 24
Allocation of the revenue transaction price	IPSAS 47	✔	8 Aug 24
Introduction of new terminology	Both	✔	8 Aug 24
Scope of transfer expenses	IPSAS 48	✔	8 Aug 24
PBE Working Group concerns (appropriations & tier transitioning)	Both	✔	8 Aug 24
Disclosures (incl RDR)	Both	Covered in this agenda item	

Other topics to be addressed during the draft ED phase

6. The table below sets out those other topics covered at this meeting and in December 2024.

Topic	Covered	Date covered
Transitional provisions	Covered in this agenda item	
Illustrative examples – modify to fit the New Zealand context as necessary	Covered in this agenda item	
Consequential amendments to other PBE Standards	Covered in this agenda item	
Bases of Conclusions	✘	4 Dec 24

Content of Agenda Item 7

7. The table below sets out the content of agenda item 7.

Item #	Title
7.1	**Cover memo**

[1] These topics were identified and agreed upon at the August 2023 meeting as well as during our discussions with the PBE Working Group in 2024.

Item #	Title
7.2	**Board memo: Revenue** This agenda item sets out our recommendations relating to topics that the Board has not yet considered.
7.3	**Draft ED PBE IPSAS 47 (marked-up)** This version of the draft ED highlights the changes made from the IPSAS and includes comments and questions to Board members.
7.3A (in supp papers)	**Draft ED PBE IPSAS 47 (clean)** This version of the draft ED is identical to the marked-up version in agenda item 7.3 but does not contain any highlighted changes, comment boxes or Board questions.
7.4	**Board memo: Transfer Expenses** This agenda item sets out our recommendations relating to topics that the Board has not yet considered.
7.5	**Draft ED PBE IPSAS 48 (marked-up)** This version of the draft ED highlights the changes made from the IPSAS and includes comments and questions to Board members.
7.5A (in supp papers)	**Draft ED PBE IPSAS 48 (clean)** This version of the draft ED is identical to the marked-up version in agenda item 7.6 but does not contain any highlighted changes, comment boxes or Board questions.

Involvement of the Drafting Support Group

8. At the August 2024 meeting, four Board members agreed to form a Drafting Support Group. The purpose of this Group is to support us through the draft ED phase of these projects by applying their public sector and/or not-for-profit perspectives.

9. In September 2024, the Group reviewed the draft EDs and provided their comments. We considered these comments when finalising the draft EDs for Board review. We have noted the Group's input in the relevant areas in agenda items 7.2 and 7.4.

Next steps

10. We will incorporate the Board's feedback and decisions on our recommendations at this meeting into the draft EDs. Ahead of the December 2024 meeting, we plan to organise optional "drop in" sessions where Board members can meet to review and discuss the updated EDs as well as the following documents:

    (a) Draft Consultation Documents

    (b) Draft Bases for Conclusions

11. At the December meeting, we will present finalised EDs and the draft Consultation Documents for approval. These documents will be accompanied by:

    (a) draft Bases for Conclusions, for Board feedback.

    (b) the stakeholder outreach plan for the period February–June 2024, for Board feedback.

Appendix 1: Detailed timeline of planned actions

Date (est)	Project activity
Discussion of remaining issues	
Aug 2024	8 August 2024 NZASB meeting Discussion of other issues identified by staff or raised in the NZASB comment letter on the IPSASB EDs. • Introduction of new terminology. • Appropriations. • Impact on the accounting for revenue and transfer expense when entities transition from Tier 2 to Tier 3 or vice versa. • The scope of the new PBE Standard on transfer expenses and how it interacts with other existing PBE standards (and IPSAS on non-exchange expense transactions not yet incorporated into the PBE Standards – Social Benefits, Collective Services, and Individual Services). Application of the PBE Policy Approach to IPSAS 42 *Social Benefits* and *Collective and Individual Services* will also take place at this meeting. • Other issues raised by New Zealand constituents during the IPSASB ED stage and members of the PBE Working Group.
Development and approval of PBE EDs (two NZASB meetings)	
Sep-Oct 2024	Drafting of the EDs and Consultation Documents. The drafting process for the EDs will involve consideration of the readability and understandability of PBE IPSAS 47 and PBE IPSAS 48 and will factor in Board decisions on content (such as including the "binding arrangement" definition in PBE IPSAS 48). We expect that this process will be performed with support from a sub-board of the NZASB. Furthermore, during this phase, if the PBE Working Group agree, staff will also check in with members to ensure we have captured all key issues.
Oct-Dec 2024	15 October and 4 December 2024 NZASB meetings Review and approval of the EDs and Consultation Documents NZASB to consider the working draft of the EDs and Consultation Documents. NZASB to approve ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses* and the Consultation Documents for publication.
PBE EDs open for consultation (4 months)	
Feb-Jun 2025	EDs and Consultation Documents to be published in February. Staff undertakes targeted and broad-scope outreach activities – stakeholder outreach plan to be shared with the NZASB in December 2024.
Analysis of feedback and development of PBE Standards (two meetings)	
Jul 2025	Staff analyse feedback received on the EDs.
Aug 2025	August 2025 NZASB Meeting NZASB to consider staff's analysis of feedback received on the EDs and recommended changes in response.

Date (est)	Project activity
Oct 2025	October 2025 NZASB Meeting NZASB to consider staff's analysis of feedback received on the EDs and recommended changes in response.
Approval and issue of PBE IPSAS 47 and PBE IPSAS 48	
Dec 2025	December 2025 NZASB Meeting NZASB to approve the final drafts of PBE IPSAS 47 and PBE IPSAS 48.
Feb 2026	PBE IPSAS 47 and PBE IPSAS 48 are issued and become effective for periods beginning on or after 1 Jan 2028.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	4 October 2024
To:	NZASB Members
From:	Leana van Heerden
Subject:	**Draft ED PBE IPSAS 47 *Revenue***

Introduction and purpose

1. The purpose of this memo is to seek the Board's agreement with:
   (a) our recommendations relating to topics which the Board has not yet discussed – specifically:
      (i) Not-for-profit adjustments;
      (ii) RDR concessions for Tier 2 entities;
      (iii) Transitional provisions;
      (iv) Illustrative examples; and
      (v) Consequential amendments to other PBE Standards.
   (b) other modifications we are proposing to IPSAS 47.

2. This memo should be read in conjunction with agenda item 7.3, which contains a marked-up version of the draft ED PBE IPSAS 47 ("draft ED"). This draft ED reflects the Board's decisions to date, as well as our recommendations on the topics referred to in paragraph 1 above.

3. We are not seeking approval of the draft ED at this meeting. Instead, we are providing the Board with the opportunity to give feedback on the eighteen questions in this agenda paper, which is also included in the draft ED, as well as review and provide feedback on the proposed drafting of PBE IPSAS 47 in its entirety. Any further feedback or editorial corrections that are not addressed during this meeting can be submitted via email. We plan to seek the Board's approval to issue ED PBE IPSAS 47 at the December 2024 meeting.

Recommendations

4. We recommend that the Board:
   (a) AGREES with our recommended not-for-profit modifications;
   (b) AGREES with our recommended RDR concessions for Tier 2 entities;
   (c) AGREES NOT to include any transitional provisions additional to those already included in IPSAS 47;
   (d) AGREES with the drafting of the illustrative examples, which have been adjusted for the New Zealand context;

(e) AGREES with other proposed New Zealand modifications to IPSAS 47, as identified in agenda item 7.3; and

(f) PROVIDES FEEDBACK on any other aspects of the draft ED as set out in agenda item 7.3.

Questions to the Board

5. Agenda item 7.3 includes the Board questions in turquoise boxes within the draft ED, alongside relevant paragraphs. There are eighteen questions in total, numbered in the order in which the relevant paragraphs appear in the draft ED. The table below sets out the questions, the locations within agenda item 7.3 and the paragraph references in this memo.

Q #	Location within agenda item 7.3	Questions Does the Board agree with/that:	Para. # in this memo
1	Identify the Revenue Transaction – page 9	Deleting the sentence in paragraph 9?	7(b)
2	Measurement – page 12	The replacement of current value with fair value in paragraphs 30, 129-131, AG31, AG104 and IE305?	34 - 36
3	Disclosure – page 37	a) The Tier 2 exemptions in the draft ED IPSAS 47 that align with NZ IFRS 15 and PBE IPSAS 23 exemptions? b) The inclusion of paragraph RDR192.1?	9 - 12
4	Disclosure – page 37	Does the Board agree not to provide Tier 2 disclosure concessions for paragraphs 167(a), 170(b), 171 and 178?	13-14
5	Transition – page 45	The transitional provisions in paragraph 196 - 203 (which are substantively aligned with IPSAS 47) are appropriate in the New Zealand context?	15-17
6	Application Guidance – page 56	The adjustments to application guidance paragraph AG46?	7(c)
7	Application Guidance – page 75	Adding the Not-for-Profit example in sub-paragraph (f) to Application Guidance paragraph AG145?	7(d)
8	Application Guidance – page 76	The adjustments in Application Guidance paragraph AG153?	37
9	Application Guidance – page 78	The addition of Application Guidance sub-paragraph AG166.1?	38
10	Consequential Amendments – page 90	The inclusion and the level of detail of the not-for-profit illustrative Statement of Comprehensive Revenue and Expenses in the consequential amendments to PBE IPSAS 1?	7(e)
11	Consequential Amendments – page 94	The inclusion of the Basis for Conclusions paragraph BC6, in the consequential amendments to PBE IPSAS 12?	29

12	Consequential Amendments – page 95	The adjustments to the consequential amendments to PBE IPSAS 13, Appendix B paragraph B8?	30
13	Consequential Amendments – page 120	The inclusion of the consequential amendments to PBE IFRS 17, PBE IAS 12, PBE FRS 45, PBE FRS 48 and XRB A1?	31
14	Implementation Guidance – page 124	Not adding a definition of appropriations to the definition section of PBE IPSAS 47?	39 - 40
15	Implementation Guidance – page 130	The inclusion of the PBE IPSAS 23 NZ Not-for-Profit guidance in PBE IPSAS 47 Implementation Guidance section G?	7(f)
16	Illustrative Examples – page 152	The expanded illustrative example 20 in paragraph IE117-IE119, or should a new example be added instead?	23
17	Illustrative Examples – page 167	The scenario detail in Illustrative Example 35 Case A1 in paragraph IE205.1?	24
18	Illustrative Examples – page 179	a. The Illustrative Example 45 in paragraph IE255 should be retained? b. If so agreed, do Board members also accept the changes made, including those associated with the removal of references to IPSAS 33 requirements and its transitional provisions, while retaining the remaining illustrative disclosures in this example?	25 - 26

Structure of this memo

6. This memo includes the following sections.

   (a) Not-for-Profit adjustments

   (b) Proposed RDR concessions

   (c) Transitional provisions

   (d) Illustrative examples

   (e) Consequential amendments to other PBE Standards

   (f) Other proposed modifications included in the draft ED

   (g) Appendix 1: Summary of outcomes from previous Board meetings relevant to ED PBE IPSAS 47

   (h) Appendix 2: PBE IPSAS 23 NZ NFP Implementation Guidance

   Given the extensive nature of draft ED PBE IPSAS 47, this Board memo has been prepared to offer a summary view of all modifications across different sections. This leads to some repetition of the information found in the staff comment boxes within the draft ED.

Not-for-Profit adjustments

7. The IPSASB Standards are specifically designed for public sector organisations. In New Zealand, PBE Standards have been developed for use by both public sector and not-for-profit entities. To ensure PBE IPSAS 47 is applicable to both these sectors, the following modifications are recommended:

   (a) Where a paragraph originally referred to the public sector, the wording has been adjusted to make it applicable to both public sector and not-for-profit entities, as appropriate within the context of the text.

   (b) Remove, from paragraph 9, the sentence "*The majority of revenue of governments and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties* – to ensure applicability to both public sector and not-for-profit entities, and to avoid overgeneralising public sector transactions.

   Question 1 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with this recommendation.

   (c) Application Guidance paragraph AG46, sub-paragraphs (a)-(e) has been aligned with paragraph 52(b) of PBE IPSAS 23. The list of examples in this paragraph is equivalent to the list of examples in paragraph 52(b) of IPSAS 23 – and in PBE IPSAS 23, we modified the wording of some of these examples for consistency with the NZ environment.

   Question 6 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with this recommendation.

   (d) Similarly, Application Guidance paragraph AG145, sub-paragraph (f) has been added. IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* contains an equivalent list of examples in paragraph 100. This not-for-profit example was added in PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. As it remains relevant and provides a not-for-profit context, we recommend including it in the draft ED.

   Question 7 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with this recommendation.

   (e) The Implementation Guidance in PBE IPSAS 1 *Presentation of Financial Reports* includes illustrative financial statement structures for both public sector and not-for-profit sectors. However, the consequential amendments to IPSAS 1 in IPSAS 47 only provides an illustrative statement of comprehensive revenue and expenses for a public sector entity. To address this gap, we have added an illustrative Statement of Comprehensive Revenue and Expenses for a not-for-profit entity as part of the consequential amendments to PBE IPSAS 1.

   Question 10 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with this recommendation.

   (f) PBE IPSAS 23 contains New Zealand not-for-profit implementation guidance related to bequests, cash donations and fundraising, goods and services in-kind and uncompleted obligations. We recommend incorporating this guidance into PBE IPSAS 47

Implementation Guidance Section G, as it would assist with consistency, clarity and enhance understanding. The PBE IPSAS 23 guidance has been separately attached in Appendix 2. If the Board agreed that this guidance should be included in PBE IPSAS 47, it will be adjusted to ensure it aligns with the requirements in PBE IPSAS 47.

Question 15 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with this recommendation.

(g) Some of the Illustrative Examples have been adjusted to include a Not-for-Profit entity as one of the parties to the transaction.

Proposed RDR concessions (page 37 of the draft ED)

8. The disclosure requirements in the draft ED are detailed in paragraphs 167-192. These requirements closely align with those in NZ IFRS 15 *Revenue from Contracts with Customers* (highlighted in pink in the draft ED) and PBE IPSAS 23 (highlighted in orange in the draft ED). The content in paragraph 180 has been removed as it relates to IPSAS 18 Segment Revenue disclosures which does not form part of PBE Standards.

9. To maintain alignment with NZ IFRS 15, we recommend including consistent disclosure concessions in PBE IPSAS 47, similar to those in NZ IFRS 15 where the paragraphs align. Additionally, we suggest adding paragraph RDR192.1, which corresponds to NZ IFRS 15 paragraph RDR128.1.

10. Similarly, we recommend maintaining disclosure concessions in PBE IPSAS 47 that align with similar paragraphs in PBE IPSAS 23.

11. Aligning these concessions ensures consistency across standards, simplifies the reporting process for entities, lowers the cost impact of implementing PBE IPSAS 47 and enhances the comparability of financial statements. This approach reduces complexity and minimises the potential for errors arising from differing requirements.

12. We considered aligning RDR concessions with IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. However, it was noted that IFRS 19 includes more disclosure requirements, resulting in fewer RDR concessions for Tier 2 entities. Additionally, since it was concluded that IFRS 19 will not be adopted in New Zealand, we decided to maintain alignment with NZ IFRS 15 RDR concessions.

Question 3 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our recommendations in paragraphs 9-12.

13. We also reviewed the remaining disclosure requirements where there is no equivalent in either NZ IFRS 15 or PBE IPSAS 23. These included paragraphs 167(a), 170(b), 171 (separately covered in paragraph 14) and 178. These disclosure requirements and the staff's evaluation of providing RDR concessions include:

(a) 167(a) - the qualitative and quantitative disclosures of revenue without binding arrangements. The revenue disclosures for non-binding arrangements must be as

detailed as those with binding arrangements, ensuring consistent reporting for both types;

(b) 170(b) - significant judgments that may affect the timing or amount of revenue. This is considered important information for users need; and

(c) 178 - the disaggregation of compliance obligation balances. This is also considered important information for user needs, particularly because the revenue balances also include requirements for disaggregation disclosure.

Additionally, the information necessary for these disclosures is not expected to be costly to obtain. Therefore, we are not proposing any disclosure concessions for these paragraphs.

14. Disclosure requirements in paragraph 171 pertain to revenue transactions without binding arrangements, where the resource provider is compelled to make payments but may lack the ability or intention to do so, such as in the case of taxes or fines. This paragraph includes disclosure requirements such as a description of the applicable legislation, the amount of revenue recognized or not recognized after implicit price concessions, among others. Staff research suggests that most public benefit entities capable of compelling payments would be classified as Tier 1 reporting entities (central government, local governments, government agencies etc.). Consequently, we have not recommended any disclosure concessions for these requirements.

Question 4 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our recommendations in paragraphs 13-14.

Transitional provisions (page 45 of the draft ED)

15. The IPSAS 47 transitional provisions align to the transitional provisions in NZ IFRS 15 except for adjustments to reflect differing principles, such as with or without binding arrangements. The IPSASB aligned the transitional provisions to ensure consistency in the application of accounting principles and improving comparability between the public and private sectors.

16. Additionally, entities that transition to PBE IPSAS 47 will benefit from similar guidance already in place under NZ IFRS 15, especially for those that may already be familiar with IFRS Accounting Standards, making the adoption process smoother.

17. We agree with the IPSASB's view on transitional provisions that align with IFRS 15 and therefore recommend including paragraphs 196 – 203 in the draft ED without substantive modification.

Question 5 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our recommendation.

Illustrative examples (page 131 of the draft ED)

18. We reviewed the IPSAS 47 illustrative examples to determine whether:

(a) the existing examples are fit-for-purpose for the New Zealand context; and

(b) additional examples are required for the New Zealand context.

19. There are 58 illustrative examples in IPSAS 47. We recommend including all of them within the draft ED, but to make them more New Zealand-specific, we have made changes to the description of the parties involved. For instance, terms like "National government" and "Regional/State government" have been replaced with "Central government," "Local government," or "council" as appropriate for each scenario. These changes have not been highlighted to maintain readability. However, other modifications to the descriptions of the parties have been highlighted for the Board's review to ensure they accurately reflect the New Zealand context.

20. Throughout our work on this project since its commencement in June 2023, we have not identified a need for additional illustrative examples and therefore do not recommend developing any more.

21. The more substantial modifications to the illustrative examples are discussed in paragraphs 22 to 26.

22. Modifications without specific Board question are as follows:

    (a) Illustrative Example 7 provides an example of an agreement for transfer that is subject to completion of the appropriations process. In this example, we have amended the dates to align with the New Zealand context.

    (b) Illustrative Example 21 has been amended as a Government Agency had the option to terminate an OAG audit, which is not possible in New Zealand. This example has been modified to a scenario where the OAG would appoint an auditor. This appointed auditor engagement can be terminated in a New Zealand context.

    (c) Illustrative Example 47 contained a reference to IPSAS 18 *Segment Reporting*, which does not form part of PBE Standards. The example has been updated to remove the IPSAS 18 reference and related segment information, including an illustrative table that reconciled revenue segment information with the disclosures by nature, amount, timing, and uncertainty of revenue cash flow.

    (d) Illustrative Example 50 originally featured a power utility but has been updated to a water utility. This change reflects that, unlike power utilities, New Zealand water utilities must provide water regardless of a household's ability to pay.

23. The amendment to Illustrative Example 20 in the draft ED is due to a Board decision in June 2024 which was - *include an illustrative example in draft PBE IPSAS 47 that demonstrates the deferral of revenue in transactions involving resources received for an entity's internal use with varying consequences – however, before adding a new illustrative example, the staff will first evaluate whether an existing example can be expanded upon*. Example 20 has been expanded to demonstrate the recognition of a liability in revenue transactions involving resources received for an entity's internal use.

    Question 16 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with the expanded Illustrative Example 20, or should a new example be added instead?

24. The amendment to Illustrative Example 35 in the draft ED is due to a Board decision in August 2024, which was to expand on this example to include a scenario where the transaction is without a binding arrangement. This is to demonstrate that binding arrangement requirements, for allocation of the transaction price as a method to proportion and recognise

revenue across multiple obligations, can also be applied in transactions without binding arrangements.

Question 17 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with the scenario detail in Illustrative Example 35 Case A1.

25. Illustrative Example 45 in IPSAS 47 contains a reference to IPSAS 33 *First-time Adoption of Accrual Basis IPSASs* transitional provisions. IPSAS 33 does not form part of PBE Standards. The example has been updated in the draft ED to remove the IPSAS 33 and transitional provision references and paragraphs.

26. A Drafting Support Group member suggested removing Illustrative Example 45 as it relates to the first-time adoption of IPSAS Standards. However, this is the only prominent example that has a more extensive illustration of what revenue disclosures may look like when PBE IPSAS 47 is adopted.

Question 18 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees to retain the example and the proposed adjustments made.

Consequential amendments to other PBE Standards (page 86 of the draft ED)

27. Our starting point when determining consequential amendments to other PBE Standards is Appendix B in IPSAS 47, which includes amendments to other IPSAS. We have performed the following work on Appendix B:

    (a) Deleted amendments to IPSAS where there is no PBE equivalent. This included deleting the amendments to IPSAS 18 *Segment Reporting*, IPSAS 24 *Presentation of Budget Information in Financial Statements*, IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*, IPSAS 43 *Leases*, IPSAS 44 *Non-current Assets Held for Sale and Discontinued Operations*, IPSAS 45 *Property, Plant and Equipment*

    (b) Amendments to IPSAS 9 *Revenue from Exchange Transactions* have been removed as this standard is superseded by IPSAS 47. The relevant IPSAS 9 amendments are also included in the Amendments to PBE IPSAS 12 *Inventories*, refer to paragraph 29;

    (c) Amendments to IPSAS 27 *Agriculture* and IPSAS 29 *Financial Instruments: Recognition and Measurement* only contained changes to IPSASB BCs therefore these amendments have been deleted. Similarly, where other Amendments to PBE Standards also contained amendments to IPSASB BCs, these amendments have been removed. We do not include IPSASB BCs in PBE Standards - they are included separately on the website.

    These changes in (a) – (c) above have not been marked up in the draft ED as they reflect adjustments that don't require further consideration.

28. In addition to the changes to Appendix B that have not been marked up, the marked-up amendments have been included in paragraphs 29 to 32 below.

29. We have added Basis for Conclusions paragraph BC6 as a consequential amendment to PBE IPSAS 12, to explain that the definitions of exchange and non-exchange transactions have been moved from PBE IPSAS 9 to PBE IPSAS 12. This change was necessitated by the supersession of PBE IPSAS 9 by PBE IPSAS 47. Please note, IPSAS 47 included these definitions

as consequential amendments to IPSAS 9, but since IPSAS 9 will be superseded, we have deleted those amendments.

Question 11 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our proposed amendments.

30. In the consequential amendments to PBE IPSAS 13 we have amended Application Guidance paragraph B8. IPSAS 47 does not contain a paragraph similar to PBE IPSAS 9 paragraph 19, which relates to stage of completion recognition when rendering services and the outcome of a transaction can be estimated reliably. We have aligned the criteria for recognising fees as income with the PBE IPSAS 47 binding arrangement and non-binding arrangement recognition paragraphs.

Question 12 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our proposed amendment.

31. We considered whether amendments to domestic PBE Standards are required. Consequential amendments were added for PBE IFRS 17, PBE IAS 12, PBE FRS 45, PBE FRS 48 and XRB A1, as these form part of the PBE suite of Standards but not IPSAS Standards.

Question 13 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with the addition of these consequential amendments to the draft ED.

32. Lastly, we also aligned the wording to the equivalent PBE Standards.

Other proposed modifications included in the draft ED

33. The other prominent proposed modifications are included in paragraphs 34 to 41 and the general modifications are in paragraph 42.

34. IPSAS 47 refers to "Current value" in the context of measuring assets and revenues where a non-cash consideration is received (for example, in the case of donated PP&E assets). The term “current value” in IPSAS 47 covers both fair value and current operational value (COV) measurement principles in IPSAS Standards. For example, when an entity receives a PP&E asset in a ‘non-exchange transaction’, IPSAS 47 would require the entity to recognise the asset and related revenue at the asset’s current value, which would be its fair value if the asset is held for financial capacity, or COV if the asset is held for operational capacity – consistent with the principles in IPSAS 46 *Measurement* and IPSAS 45 *Property, Plant and Equipment*. Currently, COV (and IPSAS 45 and 46) isn't part of PBE Standards, and the NZASB has yet to decide on its adoption, pending the finalisation of Part II of the IPSASB’s Measurement project.

35. Furthermore, fair value is defined in PBE literature as *The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.* PBE IPSAS 17 *Property, plant and equipment* paragraph 27 states - *Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition*. We also note that in PBE Standards, “current value” is not a defined term; however, it is included in the PBE Conceptual Framework as follows:

Current Value Measurements

7.22 Current value measurements reflect the economic environment prevailing at the reporting date.
7.23 There are four current value measurement bases for assets:
- *Market value;*
- *Replacement cost;*
- *Net selling price; and*
- *Value in use.*

36. Referring to 'current value' in PBE IPSAS 47 at this time could cause confusion regarding how revenue from the receipt of an asset in a non-exchange transaction should be measured. Unless and until COV is introduced into PBE Standards, it seems sensible to refer to fair value in PBE IPSAS 47 in the context of recognising revenue from non-cash consideration/assets received in non-exchange transactions. To align PBE IPSAS 47 with current PBE Standards, "current value" has been replaced by "fair value". This change has been applied in paragraphs 30, 129-131, AG31, AG104 and IE305

    Question 2 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our approach to replace current value with fair value in the draft ED.

37. Building on question 2, Application Guidance paragraph AG153 has been updated to align with current PBE Standards for non-cash considerations. Sub-paragraph (b) in IPSAS 45 mentions 'deemed cost' for initial measurement of property, plant, and equipment from a non-exchange transaction, but PBE IPSAS 17 measures these items at fair value instead. Consequently, we've included PP&E under sub-paragraph (a), which uses fair value as the criteria, and removed sub-paragraph (b).

    Question 8 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our proposed amendments.

38. PBE IPSAS 23 (para 97.1), has a NZ-specific exemption that allows PBEs not to recognise inventory received in-kind on the date of acquisition (and therefore not to recognise revenue on the date of acquisition), if it's not practicable to determine fair value because the costs of doing so would outweigh the benefits. This was a change we made to PBE IPSAS 23 as a result of hearing concerns from NZ stakeholders. We recommending adding this paragraph to PBE IPSAS 47 Application Guidance paragraph AG166.1 –

    AG166.1 An entity may elect not to recognise goods in-kind that meet the definition of inventories in PBE IPSAS 12 Inventories, if it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of recognising the goods at the date of acquisition outweigh the benefits. This will often be the case for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution. In the case where goods in-kind are sold, the entity recognises revenue when they are sold. In the case where such goods in-kind are distributed free of charge, the entity does not recognise revenue.

    Question 9 in agenda item 7.3 (and paragraph 5) asks whether the Board agrees with our recommendation.

39. At the May 2024 NZASB meeting, it was decided that the definition of Appropriations needed to be updated to reflect the New Zealand context. This update has been made in Implementation Guidance Section B3. This raised the question of whether the appropriation definition should be added to the definition section of PBE IPSAS 47, as it is not defined elsewhere in PBE literature. After discussions with the Drafting Support Group, we decided not to include an appropriation definition in PBE IPSAS 47 due to the challenges of defining a concept embedded in legislation. Additionally, other standards (PBE IPSAS 11, PBE FRS 48, PBE IPSAS 2, PBE IPSAS 22) mention appropriations without defining them. Introducing a definition would require revisiting these standards, which is not considered value-adding at this time.

40. As a consequence, appropriations are referred to in the draft ED Implementation Guidance Section B3 as follow (strikethrough information will be deleted and underlined added):

    An appropriation is ~~defined in IPSAS 24, Presentation of Budget Information in Financial Statements, as~~ an authorisation granted by a legislative body (i.e., the enabling authority) to <u>*incur expenses or capital expenditure*</u> *~~allocate funds~~ for purposes specified by the legislature or similar authority.*

    <u>Question 14</u> - Does the Board agree not to add a definition of appropriations to the definition section of PBE IPSAS 47?

41. A comparison with IPSAS 47 has been included on page 191 to show the key differences with PBE IPSAS 47 as of now. This may change based on decisions made at this meeting. If necessary, we will update the comparison and seek the Board's approval at the December 2024 meeting after implementing any changes.

42. Other general proposed modifications include:

    (a) New Zealand-specific scope paragraphs which appear in all PBE Standards (paragraphs 2.1 and 2.2).

    (b) Removing the IPSAS 42 *Social Benefits* scope exclusion in paragraph 3(a) from PBE IPSAS 47 as IPSAS 42 will not be adopted in New Zealand based on the Board decision in August 2024. Paragraphs 26-31 of IPSAS 42 (referred to in the scope exclusion) provide entities with the choice to recognise and measure the assets, liabilities, revenue, and expenses of a social benefit scheme by applying, by analogy, the relevant insurance contracts standards if the scheme is fully funded by contributions and managed similarly to insurance contracts. These paragraphs would not have impacted NZ entities since Crown insurance schemes (such as ACC and Earthquake Commission) that could have applied this insurance approach fall within scope of PBE IFRS 17 *Insurance Contracts*. Additionally, PBE IPSAS 47 includes a scope exclusion for insurance contracts within scope of PBE IFRS 17.

    (c) Replacing the reference to IPSAS 43 *Leases* with PBE IPSAS 13 *Leases* in the scope section – we expect PBE IPSAS 43 to come into effect for public sector PBEs only after the issuance of PBE IPSAS 47. This also involved removing or replacing terms such as right of use asset or lease liability.

(d) Replacing the reference to IPSAS 45 *Property, Plant and Equipment* with PBE IPSAS 17 *Property, Plant and Equipment* in the scope section and throughout the rest of PBE IPSAS 47.

(e) Sub-paragraph (e) of the Scope section has been revised to reference PBE IFRS 17 instead of '*the relevant international or national accounting standard dealing with insurance contracts'* as mentioned in IPSAS 47.

(f) Consistent with paragraph 19 of this memo, throughout PBE IPSAS 47 we have made changes to terms like "National government" and "Regional/State government" and replaced it with "Central government," "Local government," or "council" as appropriate for each scenario.

(g) New Zealand-specific paragraphs aligned with legislative requirements relating to the commencement and application of an XRB accounting standard (paragraphs 194 - 195).

(h) Adjustment to the wording in Application Guidance paragraph AG186 to address potential confusion with the phrase "when comparing the repurchase price with the price." The equivalent part of IFRS 15 (Para B66(a) and (b)) refers to the repurchase price being compared to the "original selling price,". Since IPSAS 47 paragraphs AG186(a) and (b) refer to the repurchase price being compared to the "original price," we adjusted paragraph AG186 and AG194 to refer to "when comparing the repurchase price with the original price" for clarity and consistency.

(i) Implementation Guidance Section C.3 has been amended due to Board decisions in Aug 2024. The Board agreed to add, within IPSAS 47 Implementation Guidance, a reference to the binding arrangement requirements for allocation of the transaction price as a method to proportion and recognise revenue across multiple obligations in transactions without binding arrangements.

Appendix 1: Summary of outcomes from previous Board meetings relevant to ED PBE IPSAS 47

Outcomes highlighted in grey are those which directly affect the drafting of the ED.

Meeting	Outcome	Action
August 2024	The Board AGREED:	
	• to retain, unaltered, the binding arrangement requirements in IPSAS 47 *Revenue* regarding the allocation of the transaction price;	No action required.
	• to add, within IPSAS 47 Implementation Guidance, a reference to the binding arrangement requirements for allocation of the transaction price as a method to proportion and recognise revenue across multiple obligations in transactions without binding arrangements;	**ED PBE IPSAS 47 Implementation Guidance Paragraph C3.**
	• to expand on Illustrative Example 35 in IPSAS 47 to include a scenario where the transaction is without a binding arrangement;	**ED PBE IPSAS 47 Illustrative Example 35.**
	• that ED PBE IPSAS 47 and ED PBE IPSAS 48 do not need further New Zealand-specific guidance on appropriations;	No action required.
	• to retain, unaltered, the new terminology introduced by IPSAS 47 and IPSAS 48.	No action required.
	The Board NOTED the analysis regarding the expected implications of accounting for revenue and expenses under the proposed requirements in ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses*, specifically with respect to entities transitioning from Tier 2 to Tier 3 PBE Accounting Requirements (and vice versa).	No action required.
June 2024	The Board AGREED with staff recommendations to:	
	• include an illustrative example in draft PBE IPSAS 47 that demonstrates the deferral of revenue in transactions involving resources received for an entity's internal use with varying consequences – however, before adding a new illustrative example, the staff will first evaluate whether an existing example can be expanded upon; and	**ED PBE IPSAS 47 Illustrative Example 20.**
	• elaborate in the Basis for Conclusions of draft PBE IPSAS 47 on the NZASB consideration of the deferral of revenue for transactions with binding arrangement where an entity receives resources for its internal use.	To be actioned during the drafting of the Basis of Conclusions paragraphs for ED PBE IPSAS 47

Meeting	Outcome	Action
	The Board also AGREED that the accounting treatment of multi-year funding and capital transfer in IPSAS 47 and IPSAS 48 is fit-for-purpose in New Zealand.	No action required.
May 2024	The Board:	
	• AGREED with staff's recommendation not to develop guidance (whether authoritative or non-authoritative) on New Zealand specific enforcement mechanisms and consequences;	No action required.
	• Provided FEEDBACK on our findings on appropriations and suggested staff explore the different types of New Zealand appropriations to ensure the IPSAS 47 and IPSAS 48 guidance is sufficient;	Actioned at the Aug 2024 NZASB meeting.
	• AGREED with staff's recommendation to update the non-authoritative appropriation guidance by:	
	○ removing the reference to IPSAS 24 *Presentation of Budget Information in Financial Statements* from the IPSAS 47 and IPSAS 48 Implementation Guidance.	**ED PBE IPSAS 47 IG B.3**
	○ rewording the definition of appropriations as – an authorisation granted by a legislative body (i.e. the enabling authority) to ~~allocate funds~~ incur expenses or capital expenditure for the purpose specified by the legislature or similar authority – i.e. removing the strike through words and adding the underlined words.	**ED PBE IPSAS 47 IG B.3**
	○ considering if there are other changes required to the guidance on appropriations in the IPSAS 47 and IPSAS 48 Bases for Conclusions, Implementation Guidance and Illustrative Examples to align with the New Zealand context.	**ED PBE IPSAS 47 Illustrative Example 7**
	• Provided FEEDBACK on staff's intention to develop non-authoritative guidance and/or educational material for: ○ The interaction between the new PBE Standards and PBE IPSAS 19. ○ The accounting for multi-party community initiatives.	To be actioned before the outreach activities in Feb – Jun 2025.
October 2023	The Board AGREED that:	

Meeting	Outcome	Action
	• staff should explore New Zealand-specific enforcement mechanisms and legal documents for the purpose of creating application guidance to assist entities with their enforceability assessments.	Actioned at the May 2024 meeting.
	The Board CONSIDERED and provided FEEDBACK on:	
	• areas of binding arrangement, enforceability and compliance obligation principles where further analysis is required;	No action required.
	• consequences and the form it should take to make an arrangement enforceable and recognise deferred revenue with further analysis required on this point; and	No action required.
	• staff's assessment of whether a transfer right asset meets the definition of an asset in the Conceptual Framework.	No action required.
August 2023	The Board provided feedback on the draft project plans for developing PBE Standards based on IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses* and on the approach to drafting the PBE EDs.	Proceeded with the project plan.
June 2023	The Board agreed to commence projects to develop new PBE Standards on revenue and transfer expenses, using IPSAS 47 and IPSAS 48 as respective starting points.	Commenced with the development of new PBE Standards.

Appendix 2: PBE IPSAS 23 NZ NFP Implementation Guidance

New Zealand Not-For-Profit Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 23.

B1. This Appendix provides New Zealand implementation guidance for not-for-profit entities with the following types of transactions:

(a) Bequests.

(b) Cash donations and fundraising.

(c) Goods and services in-kind.

(d) Uncompleted obligations.

A. Bequests

(Paragraphs 90–92)

B2. A bequest or legacy is a transfer of value or assets made under the provisions of a deceased person's will. (An endowment can be made prior to death. Similar issues will often arise with respect to accounting for endowments.)

B3. There are different types of bequests, including the following:

(a) Specific: Specific bequests may be gifts of a fixed sum of money or a particular asset. These bequests are paid after all claims against the estate have been met and before the residual beneficiaries are paid.

(b) Percentage of estate: A gift that is stated as a percentage of the entire estate.

(c) Residual: These bequests are paid after specific bequests, taxes and expenses have been paid. A partial distribution may be made once the residual interest is finalised, pending realisation of all the assets in the estate.

(d) Contingent (or conditional): These bequests are contingent on a future event such as the death of a primary beneficiary, or the death(s) of surviving heir(s).

(e) Deferred (also referred to as Life Interest): A bequest is left to a relative or friend (life tenant) for them to benefit from during their lifetime. This can be in the form of a house, or the interest on a trust fund (life interest). After the life tenant's death, the residual interest is then passed on to the final beneficiary. For example:

(i) A house is left to a relative/friend to inhabit during their lifetime. Upon the life tenant's death, the proceeds from the sale of the house go to the entity as residuary beneficiary.

(ii) The residue of an estate is left in a trust fund and the interest is payable to the life tenant until death. Upon death, the capital (or a percentage of the capital) passes to the entity as residuary beneficiary.

(iii) The residue of an estate is left in a trust fund and the interest is payable to the life tenant until death. The trustees have access to the capital if required to provide an adequate standard of living to the life tenant. Upon death, the remaining capital (or a percentage of that capital) passes to the entity as residuary beneficiary.

B4. Bequests may have stipulations attached to them. The nature of any stipulation will impact on the recognition of the bequest.

B5. The likelihood of receiving benefits as a result of a bequest will depend partly upon whether there are any claims challenging the provisions of a will. If a claim is made or the court is requested to assist in interpreting a will, distribution will be delayed until the court has heard the case. Where a beneficiary is entitled to a "life interest" in an asset, the estate cannot be wound up until the life interest beneficiary has died and the assets can pass to the final beneficiary. Sometimes a beneficiary may be entitled to enjoy the use of an asset, or the revenue from it, for a defined period – for example, 20 years, or until remarriage. In these cases the same principles apply.

B6. Table A below illustrates the treatment of some common bequest scenarios. These scenarios are illustrative only – there are a large number of possible variations, and they do not consider where a stipulation is breached. An entity must consider the specific facts of its own situation. In all cases it is assumed that the person making the bequest has died and the entity has been notified of the bequest by the executor or trustee.

TABLE A: ACCOUNTING TREATMENT OF SOME COMMON TYPES OF BEQUESTS

Example	**Is the bequest an asset of the NFP entity? (Paragraph 30)**	**Should the asset be recognised: (a) probable benefits? (b) reliably measurable? (Paragraph 31)**	**Accounting Treatment by NFP entity**
1. The bequest is to be managed in perpetual trust by trustees appointed by the NFP entity. The NFP entity is the single beneficiary of the trust. The NFP entity is entitled to all distributions from the trust. The funds of the trust are held separately from the funds of the NFP entity.	Yes There has been a past event – the death of the bequestor. The NFP entity has control of the bequest because it will obtain the benefits from the bequest.	(a) Yes. The benefits are probable. (b) Yes. The fair value of the bequest is able to be reliably measured.	If the NFP entity prepares separate (parent) financial statements, it would recognise the bequest by recognising its interest in the trust as an asset and revenue. The interest in the trust would be recognised when the trust is created. Disclose any restrictions on the use of the bequest. The NFP entity in its consolidated financial statements would need to consolidate the trust as a controlled entity in accordance with PBE IPSAS 6 (NFP).
2. As in example 1 above, but the funds of the trust are invested with the funds of the NFP entity. The purposes of the trust are consistent with the NFP entity's	Yes There has been a past event – the death of the bequestor. The assets held by the trust will give rise to benefits to the NFP entity. Because the funds of	(a) Yes. The benefits are probable. (b) Yes. The funds of the trust are held by the NFP entity and are able to be reliably measured.	Recognise the bequest as an asset (investment) (and revenue) of the NFP entity. Disclose any restrictions associated with the funds. Recognise ongoing revenue from the trust

Example	Is the bequest an asset of the NFP entity? (Paragraph 30)	Should the asset be recognised: (a) probable benefits? (b) reliably measurable? (Paragraph 31)	Accounting Treatment by NFP entity
activities. It is unlikely that the NFP would be required to return funds to any party.	the trust and the funds of the NFP entity have been invested together the NFP entity controls the funds of the trust.		funds as the revenue is earned.
3. The bequest is held in a permanent trust by external trustees. The trust is not controlled by the NFP entity. The trustees have investment powers but must distribute all, or a fixed proportion, of the trust surplus to the beneficiaries, which include the NFP entity, each year. The trustees have discretion regarding which beneficiaries receive the distribution each year.	No The NFP entity does not control the asset.	N/A	The NFP entity does not recognise the bequest. The NFP entity recognises distributions from the trust as an asset (receivable) and revenue if and when the trustees declare a distribution to the entity.
4. The bequest is for the residual amount of an estate. At reporting date there are unresolved claims. However, the NFP entity expects to receive a portion of the estate, although there is significant uncertainty about the amount that will be received.	Yes There has been a past event – the death of the bequestor. The NFP entity controls the right to the residual amount of the estate.	(a) Yes. Because it is expected that there will still be a residual estate after any claims have been resolved the benefits are probable. (b) No. The residual amount cannot be reliably measured.	Do not recognise the bequest until any or all claims are resolved to the extent necessary for the entity to be able to make a reliable estimate of the amount to be received. Disclose the bequest as a contingent asset. (Paragraph 36)
5. As for example 4 above but the claims have been resolved and the entity has received notification of the amount of the	Yes There has been a past event – the death of the bequestor. As the NFP entity can enforce its claim	(a) Yes. The benefits are probable. (b) Yes. The amount can be reliably measured.	Recognise the bequest as a receivable (and as revenue). When the assets from the bequest (cash or other assets) are received they would

Example	**Is the bequest an asset of the NFP entity? (Paragraph 30)**	**Should the asset be recognised: (a) probable benefits? (b) reliably measurable? (Paragraph 31)**	**Accounting Treatment by NFP entity**
entitlement.	against the estate it has control of an asset.		be recognised and the bequest receivable would be derecognised.
6. The bequest involves a life interest, where a surviving family member has the use of a house. On the death of that person, the NFP entity has full rights to the residual estate.	Yes There has been a past event – the death of the bequestor. The residual future economic benefits of the house are an asset for which the NFP entity has current right.	(a) Yes. The benefits are probable. (b) Yes. The amount can be reliably measured. The fair value of the residual estate can be estimated having regard to the life expectancy of the family member (actuarial tables can provide estimates of life expectancy), the expected fair value of the house in the future, and the time value of money.	Recognise the bequest as a receivable (and as revenue). When the assets from the bequest (cash or other assets) are received they would be recognised and the bequest receivable would be derecognised.
7. The bequest involves a life interest. A surviving family member has the use of a house and the surplus from the estate. The trustees of the estate also have access to the capital of the estate for the benefit of the life tenant, including the right to sell the house for the benefit of the life tenant. On the death of the life tenant the NFP entity has full rights to the residual estate.	Yes. There has been a past event – the death of the bequestor. The residual future economic benefits of the house are an asset for which the NFP entity has current right.	(a) No. The benefits are not probable – the estate could be used for the benefit of the life tenant. (b) No. The benefits are not measurable – it is not clear how much of the estate will remain.	Disclose the bequest as a contingent asset (Paragraph 36)

B7. The above discussion has considered the initial recognition of bequeathed assets. Changes in the subsequent measurement of bequeathed assets from one reporting date to the next would be accounted for in accordance with the relevant PBE Standards.

B. Cash Donations and Fundraising (Paragraph 104)

B8. Not-for-profit entities employ a variety of methods of fundraising. Some of the methods of fundraising employed by not-for-profit entities are described in Table B below.

TABLE B: COMMON FUNDRAISING METHODS

Fundraising method	
In-house fundraising	Fundraising conducted by the entity itself. The entity may not be able to separately identify fundraising costs from the costs of its other activities.
Fundraising by third parties	A third party fundraiser, which may or may not be an entity owned by the entity, may be used to collect funds. The third party fundraiser may pass the gross amount collected to the entity and then receive a set fee in return for their services. Alternatively the third party fundraiser may deduct expenses or charges before transferring the money to the entity.
Sales of goods and services	Goods and services may be sold by another entity in the name of a charity. The charity may receive a percentage of sales or a percentage of profit. In some cases the seller of the goods and services may not be able to honour its agreement to the charity.
Concerts and similar events	A fundraising activity, such as a concert, may be organised by a third party with net proceeds going to a charity.
Pledges	Pledges are unenforceable undertakings to transfer cash or other assets to the entity.
Sales by the entity	An entity may purchase goods which are then sold in the normal course of operations. Alternatively, those goods may be used as prizes in an auction or a raffle.

B9. Because of the range of fundraising methods used, it is important that entities describe the fundraising methods and disclose the accounting policy used to recognise fundraising revenue and associated expenses. Entities are required to disclose the accounting policies used that will help users understand the financial report (PBE IPSAS 1 *Presentation of Financial Reports* paragraph 132).

B10. Fundraising may be subject to stipulations but it is dependent on the type of fundraising. Fundraising for general purposes is less likely to attract stipulations, but requests for donations for specific projects, (for example, the reconstruction of an ecologically damaged area by a local conservation group) may be subject to restrictions (rather than conditions).

In-house Fundraising

B11. PBE Standards include a general requirement to disclose material items and limits the extent to which revenue can be netted with related expenses. (PBE IPSAS 1 paragraphs 106–107.) This information demonstrates accountability to donors.

Fundraising by Third Parties

B12. Third parties may be used for fundraising. These fundraising arrangements are frequently similar to an agency relationship in that the third party may be authorised by an entity to act on its behalf. In deciding whether the gross or net funds raised by a third party should be recognised as revenue of the entity, the entity needs to consider whether it controls the funds.

B13. If an entity's arrangement is with a third party fundraiser, it is likely to be an agency relationship. In these circumstances, it is appropriate for the entity to recognise the gross amount of funds raised as an asset and revenue in its financial statements at the time the funds are collected. The third party fundraiser operating under such an arrangement would not recognise the gross revenue (paragraph 12). The entity would also recognise the fundraising expenses, such as a fee paid to the third party fundraiser.

Sales of Goods and Services

B14. If an entity does not control goods and services sold by other entities for its benefit it does not normally have control of the funds raised until it receives them. The entity recognises the net funds received as revenue.

Concerts and Similar Events

B15. Funds from activities organised by third parties should be accounted for in the same way as goods or services sold for the benefit of the entity.

Pledges

B16. Pledges are not normally recognised as revenue (or assets) until cash is received because up until this point the pledge may be cancelled. Pledges may meet the definition of a contingent asset. Contingent assets are disclosed in the notes.

Sales by the Entity

B17. If an entity purchases goods for resale, or as prizes in an auction or a raffle, the gross revenue raised and the cost of those goods purchased must be disclosed in the statement of comprehensive revenue and expense. However, the net amount raised could be disclosed in the notes.

C. Goods and Services In-kind (Paragraphs 93–103)

B18. Entities may receive donations of goods and services. Generally the donations of goods would be unlikely to have any stipulations attached to them. These donated goods may be used by the entity itself, for example, donation of an office desk, or they may be sold in a charity shop or given away to someone else. When considering whether to recognise donated goods the entity needs to exercise judgement and consider materiality. Donated goods are required to be recognised only when the fair value of the goods can be measured reliably.

B18.1. Donated goods used by the entity itself will normally be items of property, plant and equipment that have been transferred to the entity. In many cases estimations of fair value as at the date of acquisition (for example, current market price of the donated goods) are possible and sufficiently reliable for the donated goods to be recognised at the time of acquisition.

B18.2. Charity shops generally receive donations of high-volume, low-value second-hand goods for resale (for example, used clothing, books and toys). In these circumstances, it is often not practicable to measure reliably the fair value of the goods at the date of acquisition. Where it is not practicable to measure reliably the fair value of donated goods that meet the definition of inventories in PBE IPSAS 12 at the time of acquisition because the costs of recognition at

the date of acquisition are expected to exceed the benefits, an entity recognises revenue when the donated goods are sold.

B19. Some entities redistribute donated goods (for example, food banks collect and distribute donated food). If the entity recognises these donated goods, it may be able to use estimating and averaging processes (for example, the estimated number of standard food parcels created from goods received) to determine fair value. If a food bank receives goods which have a limited remaining life or which have been damaged, the fair value as at the date of acquisition and at the reporting date would reflect this. Where it is not practicable to measure reliably the fair value of goods that meet the definition of inventories in PBE IPSAS 12 at the date of acquisition because the costs of recognition at the date of acquisition are expected to exceed the benefits, an entity does not recognise revenue at the time of acquisition. In this case, if the donated goods are redistributed free of charge there will be no transaction recognised in the financial statements.

B20. Entities may receive donations of goods that are not suitable for use by the entity or for sale or distribution to others. If such goods are disposed of rather than being held by the entity they would constitute assets of the entity only to the extent of any proceeds from their disposal and would be recognised in the financial statements only to that extent.

B20.1. The disclosure requirements in this Standard require entities to make disclosures about the nature and type of donated goods received. These disclosure requirements apply to all donated goods, even if they are not recognised at the time of acquisition. For example, a charity shop will need to disclose its accounting policy for the recognition of donated goods received, and the information about the nature and type of donated goods. Similarly, an entity that distributes donated goods free of charge would disclose information about its distribution activities even where the financial statements do not include any monetary value. This information is required to help users of the financial statements understand the extent of support received by the entity through donations of goods and the risks to the entity of not receiving these donations in the future.

B21. Services in-kind are likely to be hours of work provided by volunteers. The volunteers are likely to be carrying out work as directed by the entity and the attachment of stipulations is unlikely.

D. Uncompleted Service Arrangements

B22. It is not uncommon for entities to enter into service delivery arrangements where the entity must provide services to a designated population as required by that population during a specified period. Such arrangements are particularly common in the health and social services sectors. In some cases the contracts might be exchange contracts (in which case PBE IPSAS 9 would be applicable). If the contract leads to non-exchange revenue there may still be a condition attached, which is explained in this Standard as “Conditions on Transferred Assets”.

B23. Issues may arise when the arrangement spans more than one financial year, which often arises where the financial years of the funder and the service provider differ. This Standard establishes requirements for the recognition of any associated non-exchange revenue. If the entity received funding that is accompanied by a condition (as per the terms in this Standard) then it would recognise a liability and recognise the revenue as the liability is satisfied.

B24. In some cases the satisfaction of the liability would mirror the pattern of expenditure. If there is no condition associated with the funding, this Standard requires that the revenue is recognised immediately on receipt of the asset. However, this Standard does not address the issue of how to deal with a different pattern of recognition of the related expenditure which may result in an apparent overstatement of surplus/deficit in one period and an apparent understatement in another period. Entities may consider disclosing the nature of such uncompleted arrangements.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed new accounting standard for revenue

PBE IPSAS 47 *Revenue*

Exposure Draft

Submissions close xx 2025

Note to the Board:

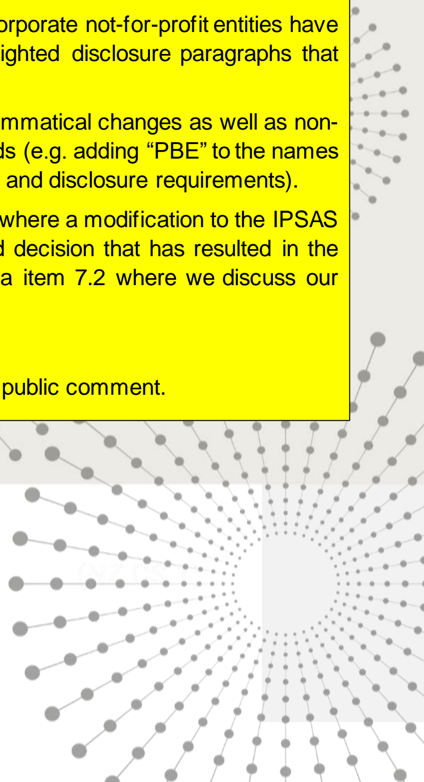
Changes from the IPSAS have been highlighted in **blue** and changes made to incorporate not-for-profit entities have been highlighted in **yellow**. Additionally, in the Disclosure section, we have highlighted disclosure paragraphs that align with NZ IFRS 15 in **pink** and PBE IPSAS 23 in **orange**.

Certain changes have not been highlighted – these include minor spelling and grammatical changes as well as non-substantive changes made to maintain consistency within the PBE suite of standards (e.g. adding "PBE" to the names of IPSAS standards and removing the term "Display" in the context of presentation and disclosure requirements).

Notes to Board members are included in comment boxes in certain areas, mostly where a modification to the IPSAS has been made. Some of these notes refer Board members to a previous Board decision that has resulted in the modification – others refer Board members to the relevant paragraphs in agenda item 7.2 where we discuss our recommendations.

Board questions are included in **turquoise** boxes within the body of the draft ED.

All highlights, comments and text boxes will be removed before issuing the ED for public comment.



February 2025

NZASB EXPOSURE DRAFT 2025-01

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 47 REVENUE (PBE IPSAS 47)

Issue [Date]

This Tier 1 and Tier 2 [draft][1] PBE Standard has been issued as a result of a new International Public Sector Accounting Standard – IPSAS 47 *Revenue*.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of Standard

This Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after its publication. The Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

This Standard has a mandatory date of 1 [January 2028], meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of this Standard to an earlier accounting period is permitted for accounting periods that end after the Standard takes effect – refer to paragraphs 194 - 194.3 of this Standard.

This Standard includes RDR disclosure concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 public benefit entity accounting requirements in accordance with XRB A1 Application of the Accounting Standards Framework. Entities that elect to report in accordance with Tier 2 accounting requirements are not required to comply with paragraphs in this Standard denoted with an asterisk (*). However, an entity is required to comply with any RDR paragraphs associated with a disclosure concession that is adopted.

[1] References to "this Standard" or "PBE IPSAS 47" throughout this Exposure Draft should be read as referring to "this draft PBE Standard" or "draft PBE IPSAS 47".

COPYRIGHT

© External Reporting Board (XRB) 2025

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC) parts of the corresponding standard issued by the International Public Sector Accounting Standards Board (IPSASB), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

ISBN

PBE IPSAS 47 REVENUE

CONTENTS

	Paragraph
Objective	1–2
Scope	3
Definitions	4–8
Revenue	5–8
Identify the Revenue Transaction	9–16
Identify whether a Binding Arrangement Exists	11–16
Revenue from Transactions without Binding Arrangements	17–55
Recognition	17–29
Measurement	30–35
Taxes	36–55
Revenue from Transactions with Binding Arrangements	56–161
Recognition	56–105
Measurement	106–147
Other Assets from Revenue Transactions with Binding Arrangement Costs	148–161
Presentation	162–193
Disclosure	162–193
Commencement and Application	194–195
Transition	196–203
Withdrawal of Other Standards	204

Appendix A: Application Guidance

Appendix B: Amendments to Other PBE Standards

Basis for Conclusions

Implementation Guidance

Illustrative Examples

Comparison with NZ IFRS 15

Comparison with IPSAS 47

The following is available on the XRB website as additional material

IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 47 *Revenue* is set out in paragraphs 1–204 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 47 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 47, the IPSASB's Basis for Conclusions on IPSAS 47, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity to consider the terms of the transaction, and all relevant facts and circumstances, to determine the type of revenue transaction; and

   (b) Sets out the accounting requirements to account for the revenue transaction.

Scope

2.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

2.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

3. **An entity that prepares and presents financial statements shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:**

   (a) ~~**Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of IPSAS 42, *Social Benefits* (the insurance approach)**~~**[Not used];**

   (b) **A public benefit entity combination within the scope of PBE IPSAS 40 *PBE Combinations*;**

   (c) **The accounting for contributions from owners;**

   (d) **Lease contracts within the scope of PBE IPSAS 13[2] *Leases*;**

   (e) **Insurance contracts within the scope of PBE IFRS 17 *Insurance Contracts*;**

   (f) **Financial instruments and other contractual rights or obligations within the scope of PBE IPSAS 41 *Financial Instruments*;**

   (g) **Rights or obligations arising from binding arrangements within the scope of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, PBE IPSAS 32 *Service Concession Arrangements: Grantor*, PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements*, PBE IPSAS 39 *Employee Benefits*, and PBE IPSAS 40;**

   (h) **Non-monetary exchanges between entities in the same line of business to facilitate sales to resource providers or potential resource providers. For example, this Standard would not apply to a binding arrangement between two public benefit entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis;**

Commented [LV1]: Note to Board Members
We are removing the scope exclusion from PBE IPSAS 47 as New Zealand is not adopting IPSAS 42.
Paragraph 26-31 of IPSAS 42 provides entities with the choice to recognize and measure the assets, liabilities, revenue, and expenses of a social benefit scheme by applying, by analogy, the relevant insurance contracts standards if the scheme is fully funded by contributions and managed similarly to insurance contracts. These paragraphs would not have impacted NZ entities since Crown insurance schemes (such as ACC and Earthquake Commission) that could have applied this insurance approach fall within scope of PBE IFRS 17.

2 As of the issuance date of [draft] PBE IPSAS 47, PBE IPSAS 13 Leases remains in effect for public sector public benefit entities and has not yet been superseded by PBE IPSAS 43 Leases. PBE IPSAS 13 also continues to apply to not-for-profit public benefit entities. Therefore, this [draft] Standard references PBE IPSAS 13 rather than PBE IPSAS 43.

(i) **Gains from the sale of non-financial assets that are not an output of an entity's activities and are within the scope of PBE IPSAS 16 *Investment Property*, PBE IPSAS 17 *Property, Plant, and Equipment*, or PBE IPSAS 31 *Intangible Assets* (see paragraph AG5);**

(j) **Changes in the value of current and non-current assets arising from subsequent measurement;**

(k) **Initial recognition or changes in the fair value of biological assets related to agricultural activity (see PBE IPSAS 27 *Agriculture*); and**

(l) **The extraction of mineral resources.**

Definitions

4. **The following terms are used in this Standard with the meanings specified[3]:**

For the purposes of this Standard, a binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG10–AG31 provide additional guidance.)

A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

A binding arrangement liability is an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.

From the perspective of a resource recipient, a capital transfer is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG140 provides additional guidance.)

A compliance obligation is an entity's promise in a binding arrangement to either use resources[4] internally for distinct goods or services[5] or transfer distinct goods or services to a purchaser or third-party beneficiary.

A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.

---

[3] Revenue defined in PBE IPSAS 1 paragraph 7 as *the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners*.

[4] In this Standard, the term resource includes goods, services, and other assets, which may encompass cash or non-current assets.

[5] In this Standard, references to goods and services, or goods or services are to be read as incorporating references to cash and non-current assets.

Other compulsory contributions and levies is cash or another asset, paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programmes.

A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. (Paragraph AG27 provides additional guidance.)

A resource provider is the party that provides a resource to the entity. (Paragraphs AG26–AG31 provides additional guidance.)

The stand-alone value (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature, or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.

A third-party beneficiary is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources. (Paragraph AG29 provides additional guidance.)

For the purposes of this Standard, the transaction consideration is the amount of resources to which an entity expects to be entitled.

A transfer is a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.

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

Revenue

5. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organisation or other third parties are not considered revenue of the agent, as these amounts will not give rise to an increase in net assets/equity of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

6. Where an entity incurs some cost in relation to revenue arising from a revenue transaction, the revenue is the gross inflow of future economic benefits or service potential, and any transfer of resources is recognised as a cost of the transaction. For example, if an entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (resource provider), those costs are recognised separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are recognised in accordance with PBE IPSAS 17.

Taxes

7. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 4 as economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory transfers to the government or public benefit entities, such as donations and the payment of fees, are not taxes, although they may be the result of transactions without a binding arrangement. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

8. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer.

Identify the Revenue Transaction

9. For public benefit entities revenues may arise from transactions without binding arrangements or with binding arrangements. ~~The majority of revenue of governments and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.~~

Commented [LV2]: Note to Board Members (Q1)
The sentence was removed from PBE IPSAS 47 to ensure applicability to both public sector and not-for-profit entities, and to avoid overgeneralising public sector transactions.

Question 1 to Board members

Refer to paragraphs 7(b) in agenda item 7.2.

Do Board members agree with deleting the sentence in paragraph 9?

10. **At inception, an entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement**.

Identify whether a Binding Arrangement Exists

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

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

13. A binding arrangement includes both rights and obligations that are enforceable for two or more of the parties in the arrangement. Each party's enforceable rights and obligations within the binding arrangement are interdependent and inseparable.

14. 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 vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of the resource provider or the nature of the entity's promise in the binding arrangement).

15. An entity will apply the recognition and measurement criteria in this Standard as follows:

    (a) Revenue from transactions without binding arrangements are accounted for by applying paragraphs 18–55, with guidance specific to taxes in paragraphs 36–55; and

    (b) Revenue from transactions with binding arrangements are accounted for by applying paragraphs 56–147.

16. Paragraphs AG10–AG31 provide additional guidance on enforceability and binding arrangements.

Revenue from Transactions without Binding Arrangements

Recognition

17. **An entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any entity shall determine if:**

    (a) Any of its rights in its revenue transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 18–25; and

    (b) Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 26–27.

Analysis of the Initial Inflow of Resources

18. An entity may receive an initial inflow of resources from a revenue transaction without a binding arrangement. The entity recognises this inflow of resources as an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably.[6] Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in achieving its service delivery or other objectives. A past event that gives the entity control of a resource may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

19. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph AG143, entities may, but are not required to, recognise services in-kind.

20. Each type of inflow of resources is analysed and accounted for separately. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry

---

6 Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

with it obligations that the entity may recognise as a liability until the obligations are satisfied (in accordance with paragraph 26).

Right to an Inflow of Resources

21. When an entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services, or other assets which may be a resource that meets the definition of an asset and is to be recognised as an asset. The entity bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the resource provider's ability and intention to provide the resources.

22. An announcement of an intention to transfer resources to a public benefit entity is not of itself sufficient to identify resources as controlled by an entity.[7]

23. In circumstances where an agreement is required before resources can be transferred, an entity will not identify the resources as controlled until such time as the entity's right in the agreement is enforceable, because the entity cannot exclude or regulate the access of the resource provider to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognise an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the resource provider's access to those resources.

Contingent Assets

24. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see PBE IPSAS 19).

Subsequent Consideration of Asset Recognition Criteria

25. An entity shall continue to assess the revenue transaction, and any inflow of resources received or to be received, to determine whether the criteria for asset recognition in paragraph 21 are subsequently met.

Existence and Recognition of a Liability

26. An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.

27. For a liability to exist, it is necessary that the entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s).

28. An obligation that meets the definition of a liability shall be recognised as a liability when, and only when, the amount of the obligation can be measured reliably.

[7] For example, if a public school were destroyed by a fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognise an inflow of resources (resources receivable) at the time of the announcement.

Recognition of Revenue Transactions without Binding Arrangements

29. **When an entity recognises an inflow or right to an inflow of resources as an asset for a revenue transaction without a binding arrangement in accordance with paragraphs 18–25, it recognises revenue based on the nature of the requirements in its revenue transaction. An entity shall recognise revenue from a transaction without a binding arrangement:**

    (a) When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or

    (b) Immediately if the entity does not have an enforceable obligation associated with the inflow of resources.

Measurement

Measurement of Assets from an Inflow of Resources

30. **An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its fair ~~current~~ value, in accordance with the relevant PBE Standard.**

Commented [LV3]: Note to Board Members (Q2)
IPSAS 47 includes the term current value which has been replaced by fair value in PBE IPSAS 47. Refer to board memo 7.2 for further detail on this adjustment.

This change applies to PBE IPSAS 47 paragraphs 30, 129-131, AG31, AG104 and IE305.

Question 2 to Board members

Refer to paragraphs 34 - 36 in agenda item 7.2.

Do Board members agree with the replacement of "current value" with "fair value" in paragraphs 30, 129-131, AG31, AG104 and IE305?

31. After initial recognition, an entity shall subsequently measure:

    (a) A receivable asset:

        (i) Within the scope of PBE IPSAS 41 as a financial asset in accordance with PBE IPSAS 41; or

        (ii) Not within the scope of PBE IPSAS 41 on the same basis as a financial asset in accordance with PBE IPSAS 41, by analogy.

    (b) All other assets as prescribed by the applicable PBE Standard.

Measurement of Liabilities

32. **The amount recognised as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised.**

33. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised. Where the time value of money is material, the liability shall be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in PBE IPSAS 19.

Measurement of Revenue Transactions without Binding Arrangements

34. **Revenue from transactions without a binding arrangement shall be measured at the amount of the increase in net assets (e.g., the consideration received or receivable) recognised by the entity.**

35. When, as a result of a revenue transaction without a binding arrangement, an entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured in accordance with paragraph 30, subject to any liability recognised in accordance with paragraphs 26–28.

Taxes

36. **An entity shall recognise an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met.**

37. Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and/or regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

38. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of past events (taxable events) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when they are presently controlled by the entity as a result of past events and their value can be measured reliably. The entity should consider evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

39. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the central ~~national~~ government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a central ~~national~~ government imposes a sales tax, the entire proceeds of which it passes to local ~~state~~ governments, based on a continuing appropriation, the central ~~national~~ government recognises assets and revenue for the tax, and a decrease in assets and an expense for the transfer to local ~~state~~ governments. The local ~~state~~ governments will recognise assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a ~~state~~ taxation agency collects income taxes for the central ~~state~~ government and local ~~several city~~ governments, it does not recognise revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognise assets and revenue in respect of the taxes.

40. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

41. Taxes are a transaction without a binding arrangement because the taxpayer transfers resources to the government, and the government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer may benefit from a range of social policies established by the government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes.

Triggering Event for Taxes and Other Compulsory Contributions and Levies

42. Similar types of taxes are levied in many jurisdictions. The entity analyses the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied.

43. Similar types of other compulsory contributions and levies occur in many jurisdictions. The entity analyses the law and/or regulation relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

    (a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);

    (b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and

    (c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

Advance Receipts of Taxes and Other Compulsory Contributions and Levies

44. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 36, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the triggering event for other compulsory contributions and levies are recognised as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes or other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied, notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognised until the triggering event for other compulsory contributions and levies occurs. When the triggering event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognised.

Measurement of Assets Arising from Taxation Transactions

45. Assets arising from taxation transactions are measured in accordance with paragraph 30. An entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts). The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

46. Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these transactions by using, for example, statistical models based on

the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:

(a) The tax law and/or regulation allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

(b) Taxpayers failing to file returns on a timely basis;

(c) Valuing non-monetary assets for tax assessment purposes;

(d) Complexities in tax law and/or regulation requiring extended periods for assessing taxes due from certain taxpayers;

(e) The potential that the financial and political costs of rigorously enforcing the tax laws and/or regulations (or laws and/or regulations relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;

(f) The tax law and/or regulation permitting taxpayers to defer payment of some taxes; and

(g) A variety of circumstances particular to individual taxes and jurisdictions.

47. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

48. In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event has occurred. This may occur if a tax base is volatile and a reliable estimation is not possible. In many cases, the assets and revenue may be recognised in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in the recognition of an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a deceased individual's large estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently, the recognition criteria may not be satisfied until payment is received or receivable.

Measurement of Taxes with Collection Uncertainty

49. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

50. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(c) The entity's experience (or other evidence) with similar types of arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar arrangements in similar circumstances.

(e) The transaction has a large number and broad range of possible consideration amounts.

Expenses Paid Through the Tax System and Tax Expenditures

51. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

52. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, by making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognised separately in the statement of comprehensive revenue and expenses. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

53. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

54. In most jurisdictions, governments use the tax system to encourage certain financial behaviour and discourage other behaviour. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.

55. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to entities irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. PBE IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Revenue from Transactions with Binding Arrangements

Recognition

Accounting for the Binding Arrangement

56. **An entity shall account for a binding arrangement using the binding arrangement accounting model if all of the following criteria are met:**

(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;

(b) The entity can identify each party's rights under the binding arrangement;

(c) The entity can identify the payment terms for the satisfaction of each identified compliance obligation;

(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 binding arrangement) (paragraphs AG32–AG34 provide additional guidance for binding arrangements that require a transfer of distinct goods or services to a purchaser or third-party beneficiary); and

(e) It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement (paragraphs AG35–AG39 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the resource provider'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 transaction consideration stated in the binding arrangement if the consideration is variable because the entity may offer the resource provider a price concession (see paragraph 115).

57. If a binding arrangement meets the criteria in paragraph 56 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 resource provider'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 for the satisfaction of any remaining compliance obligations in the binding arrangement.

58. When a binding arrangement does not meet all of the criteria in paragraph 56, the entity shall recognise any consideration received as revenue only when either of the following events has occurred:

(a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or

(b) The binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.

An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 56 are subsequently met.

59. For the purpose of applying this Standard, an arrangement is not a binding arrangement if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties).

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

(a) The entity has not yet started satisfying any of its compliance obligations in the binding arrangement; and

(b) The resource provider has not yet paid, and is not yet obligated to pay, any consideration to the entity for the entity satisfying any of its compliance obligations in the binding arrangement.

61. If an entity has determined that its revenue arises from a transaction with a binding arrangement that is to be accounted for using the binding arrangement accounting model, the entity shall also consider whether it should be combined with other binding arrangements, and whether there are any modifications to its binding arrangement.

Combination of Binding Arrangements

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

    (a) The binding arrangements are negotiated as a package with a single objective;

    (b) The amount of consideration to be paid in one binding arrangement depends on the consideration or performance of the other binding arrangement; or

    (c) The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation in accordance with paragraphs 68–77.

Modifications to a Binding Arrangement

63. A modification to a binding arrangement is a change in the scope or consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

64. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or consideration (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration, an entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 113–117 on estimating variable consideration and paragraphs 119–121 on constraining estimates of variable consideration.

65. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

    (a) The scope of the binding arrangement increases because of the addition of promises that are distinct (in accordance with paragraphs 73–77); and

    (b) The consideration of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone values of the additional promises and any appropriate adjustments to that value to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the

stand-alone value of an additional good or service for a discount that the resource provider receives, because it is not necessary for the entity to incur the related costs that it would incur when providing a similar good or service to a new resource provider.

66. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall account for the promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promises) in whichever of the following ways is applicable:

(a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining promises are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation identified in accordance with paragraph 68(b)) is the sum of:

(i) The consideration promised by the resource provider (including amounts already received from the resource provider) that was included in the estimate of the transaction consideration and that had not been recognised as revenue; and

(ii) The consideration promised as part of the modification to a binding arrangement.

(b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single compliance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction consideration, and on the entity's measure of progress towards complete satisfaction of the compliance obligation, is recognised as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).

(c) If the remaining promises are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) compliance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Duration of a Binding Arrangement

67. Some binding arrangements 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 Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

Identifying Compliance Obligations in a Binding Arrangement

68. **At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a resource provider and shall identify as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties (i.e., the purchaser (the resource provider) or third-party beneficiary), either:**

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use internally or transfer to the purchaser or third-party beneficiary (see paragraph 70).

Paragraphs AG43–AG56 provide additional guidance on identifying compliance obligations.

69. **A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid.**

70. A series of distinct goods or services has the same pattern of use internally or transfer to the purchaser or third-party beneficiary if both of the following criteria are met:

    (a) Each distinct good or service in the series would meet the criteria in paragraph 92 or 95 to be a compliance obligation satisfied over time; and

    (b) In accordance with paragraphs 98–99, the same method would be used to measure the entity's progress towards complete satisfaction of the compliance obligation.

Promises to Use Resources

71. A binding arrangement generally explicitly states the goods or services that an entity promises to either obtain for use internally or transfer to a purchaser or third-party beneficiary. However, the compliance obligations identified in a binding arrangement may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement may also include promises that are implied by an entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the resource provider that the entity will perform, and are of sufficient specificity for them to be able to hold the entity accountable.

72. Compliance obligations do not include activities that an entity must undertake to satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, an entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not use a resource internally for a service or transfer a service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation.

Identifying Distinct Promises to Use Resources

73. A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied. A good or service that is promised in a binding arrangement is distinct if both of the following criteria are met:

    (a) The party receiving the good or service can generate economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to that party (i.e., the good or service is capable of being distinct); and

    (b) The entity's promise to use resource internally for the good or service or transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise is distinct within the context of the binding arrangement).

    See paragraphs AG53–AG56 for specific guidance on identifying distinct promises to use resources for another party.

74. An entity determines if the party receiving the good or service is itself, resource provider (purchaser), or a specified third-party beneficiary by considering the nature of its compliance obligation.

    (a) In a compliance obligation where an entity promises to use resources internally for a distinct good or service, the entity itself is the recipient of the goods or services.

    (b) In a compliance obligation where an entity promises to use resources to transfer a distinct good or service to a purchaser or third-party beneficiary, the recipient of the goods or services is either the purchaser, or the third-party beneficiary.

    See paragraph AG27 for additional guidance.

75. A party can generate the economic benefits or service potential from the good or service in accordance with paragraph 73(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a party may be able to generate economic benefits or service potential from the good or service on its own. For other goods or services, a party may be able to generate economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the party has already obtained from the entity (including goods or services that the entity will use internally or that will be transferred to the purchaser or third-party beneficiary, under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the party can generate economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly internally uses or provides a good or service separately would indicate that a party can generate economic benefits or service potential from the good or service on its own or with other readily available resources.

76. In assessing whether an entity's promises to use resources internally for goods or services or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph 73(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises are not separately identifiable include, but are not limited to, the following:

    (a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the resource provider has entered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the resource provider. A combined output or outputs might include more than one phase, element or unit.

    (b) One or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the binding arrangement.

    (c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to satisfy its promise by using each of the goods or services internally, or transferring each of the goods or services, independently.

77. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all of the goods or services promised in a binding arrangement as a single compliance obligation.

Initial Recognition of Revenue Transactions with a Binding Arrangement

78. When a binding arrangement is wholly unsatisfied in accordance with paragraph 60, an entity shall not recognise any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

79. Where a binding arrangement becomes onerous, an entity shall account for the expected deficit in accordance with PBE IPSAS 19. Paragraphs AG57–AG58 provide additional guidance on unsatisfied binding arrangements.

Analysis of the Initial Inflow of Resources

80. An entity may receive or have the right to an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. An entity should apply paragraphs 18–25, and recognise an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of, and the recognition criteria for, an asset are met.

Existence and Recognition of a Liability

81. Public benefit entities typically receive resources from governments or other entities. When an entity recognises an asset for an inflow of resources, it shall consider if there are compliance obligations related to the inflow which result in the recognition of a liability.

82. A compliance obligation gives rise to a liability when:

    (a) The entity has received resources associated with its unsatisfied or partially unsatisfied compliance obligation in a binding arrangement; and

    (b) The resource provider can enforce the binding arrangement, if the entity does not satisfy the compliance obligation(s) associated with the consideration received, by requiring the entity to transfer resources to another party in compliance with the terms of the binding arrangement.

    See additional guidance in paragraphs AG59–AG62.

83. In accordance with paragraph 27, a liability exists if the entity cannot avoid a transfer of resources as a consequence of past events, and the transfer of resources is probable. An entity should consider the facts and circumstances relating to the binding arrangement to determine if the other party or parties (which is typically the resource provider) are able to enforce their rights and impose a consequence that requires an incremental transfer of resources as a result of the entity's non-compliance (i.e., not satisfying its compliance obligation(s)).

84. As an administrative convenience, a transfer of resources as a consequence of the entity not satisfying its compliance obligations may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The entity will still recognise the gross amounts in its financial statements: that is, the entity will recognise a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

85. If an entity receives resources prior to both the parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognises a liability for an advance receipt until such time as the arrangement becomes binding.

86. A compliance obligation that meets the definition of a liability shall be recognised as a liability when, and only when the amount of the obligation can be measured reliably. The entity shall continue to recognise the liability until one of the events in paragraph 58 is subsequently met.

Recognition of Revenue Transactions with a Binding Arrangement

87. **When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for, an asset in accordance with paragraphs 18–25, the entity shall recognise:**

    (a) Revenue for any satisfied compliance obligations in respect of the same inflow; and

    (b) A liability for any unsatisfied compliance obligations in respect of the same inflow.

88. **The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognise revenue from a transaction with a binding arrangement when (or as) the entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement. The entity shall reduce the carrying amount of any liability that was recognised in accordance with paragraphs 81–86 by an equal amount. Paragraphs AG63–AG95 provide additional guidance on the satisfaction of compliance obligations.**

89. **An entity satisfies a compliance obligation by using resources internally for a promised good or service (i.e., an asset), or to transfer a promised good or service to a purchaser or third-party beneficiary. An asset is used internally or transferred when (or as) the entity receiving the asset obtains control of that asset.**

90. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, a resource (see paragraph 18). The economic benefits or service potential embodied in a resource are the potential cash flows (inflows or savings in outflows), or the capability to provide services that contribute to achieving the entity's objectives, that can be obtained directly or indirectly in many ways, such as by:

    (a) Using the resource to provide internal training;

    (b) Using the resource to produce goods or provide services (including public services);

    (c) Using the resource to enhance the value of other assets;

    (d) Using the resource to settle liabilities or reduce expenses;

    (e) Selling or exchanging the resource;

    (f) Pledging the resource to secure a loan; and

    (g) Holding the resource.

91. For each compliance obligation identified in accordance with paragraphs 68–77, an entity shall determine at the inception of the binding arrangement whether it satisfies the compliance obligation over time (in accordance with paragraphs 92–93 or paragraphs 95–96) or satisfies the compliance obligation at a point in time (in

accordance with paragraph 94 or paragraph 97). If the entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Compliance Obligations to Use Resources for Goods or Services Internally

Satisfied Over Time

92. An entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognises revenue over time, if one of the following criteria is met:

    (a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

    (b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

    (c) The entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

93. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to consideration for any compliance obligation completed to date in accordance with paragraph 92(c). The right to consideration for any compliance obligation completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for any compliance obligation completed to date if the binding arrangement is terminated by the resource provider or another party with enforceable rights and obligations in the binding arrangement for reasons other than the entity's failure to perform as promised. Paragraphs AG67–AG71 provide guidance for assessing the existence and enforceability of a right to consideration and whether an entity's right to consideration would entitle the entity to be paid for any compliance obligation completed to date.

Satisfied at a Point in Time

94. If a compliance obligation is not satisfied over time in accordance with paragraphs 92–93, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which the entity obtains control of a promised asset and satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90.

Compliance Obligations to Transfer Goods or Services to Another Party (Purchaser or Third-Party Beneficiary)

Satisfied Over Time

95. An entity transfers control of a good or service over time and, therefore, satisfies a compliance obligation and recognises revenue over time, if one of the following criteria is met:

    (a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);

    (b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or

    (c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 96) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

96. An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the compliance obligation. Paragraphs AG76–AG78 provide guidance for assessing whether an asset has an alternative use to an entity.

Satisfied at a Point in Time

97. If a compliance obligation is not satisfied over time in accordance with paragraphs 95–96, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary obtains control of a promised asset and the entity satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90 (and AG183–AG185 if the entity has a repurchase agreement). In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to consideration for the asset — if a resource provider is presently obligated to pay for an asset, then that may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.

(b) The purchaser or third-party beneficiary has legal title to the asset — legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If an entity retains legal title solely as protection against the resource provider's failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset — the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a resource provider or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the resource provider controls. Paragraphs AG183–AG196, AG197–AG198, and AG199–AG202 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate compliance obligation in addition to the compliance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a resource provider but not yet

satisfied an additional compliance obligation to provide maintenance services related to the transferred asset.

(e) The resource provider has accepted the asset — the resource provider's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. To evaluate the effect of an acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG82–AG85.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

98. For each compliance obligation satisfied over time in accordance with paragraphs 92–93 (for compliance obligations to use goods or services internally) or paragraphs 95–96 (for compliance obligations to transfer goods or services to another party), an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that compliance obligation. The objective when measuring progress is to depict an entity's performance to satisfy its compliance obligation.

99. An entity shall apply a single method of measuring progress for each compliance obligation satisfied over time and the entity shall apply that method consistently to similar compliance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

Methods for Measuring Progress

100. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG86–AG95 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a compliance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively.

101. When applying a method for measuring progress for a specific compliance obligation, an entity shall exclude from the measure of progress any goods or services not directly related to that compliance obligation:

(a) For a compliance obligation where the entity promises to use resources internally for a distinct good or service, the entity shall exclude from the measure of progress any goods or services for which the entity does not retain control. Conversely, an entity shall include in the measure of progress any goods or services for which the entity retains control when satisfying that compliance obligation; and

(b) For a compliance obligation where the entity promises to use resources to transfer a distinct good or service to another party, the entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to another party (i.e., a purchaser or third-party beneficiary). Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to another party (i.e., a purchaser or third-party beneficiary) when satisfying that compliance obligation.

102. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with PBE IPSAS 3.

Reasonable Measures of Progress

103. An entity shall recognise revenue for a compliance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the compliance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

104. In some circumstances (for example, in the early stages of a binding arrangement), an entity may not be able to reasonably measure the outcome of a compliance obligation, but the entity expects to recover the costs incurred in satisfying the compliance obligation. In those circumstances, the entity shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the compliance obligation.

Subsequent Consideration of Asset Recognition Criteria

105. When an inflow of resources from a binding arrangement within the scope of this Standard does not meet the criteria in paragraph 18, and an entity subsequently receives an inflow of resources from the resource provider, the entity shall recognise the inflow received as revenue only when either of the following events has occurred:

    (a) The entity has no unsatisfied compliance obligation; or

    (b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Measurement

Measurement of Assets from an Inflow of Resources

106. **An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition are satisfied (see paragraphs 109–132). An entity shall subsequently measure the asset in accordance with paragraph 31.**

Measurement of Liabilities

107. The amount recognised as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised for the inflow of resources. An entity shall apply paragraph 33 in determining its best estimate of the liability.

Measurement of Revenue Transactions with Binding Arrangements

108. **When (or as) a compliance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 119–121) that is allocated to that compliance obligation.**

Determining the Transaction Consideration

109. An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the amount of resources to which an entity expects to be entitled in the binding arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both.

110. Credit risk is not considered when determining the amount the entity expects to be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in PBE IPSAS 41.

111. The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:

(a) Variable consideration (see paragraphs 113–117 and 122);

(b) Constraining estimates of variable consideration (see paragraphs 119–121);

(c) The existence of a significant financing component in the binding arrangement (see paragraphs 123–128);

(d) Non-cash consideration (see paragraphs 129–132); and

(e) Consideration payable to a resource provider (see paragraphs AG104–AG106).

112. For the purpose of determining the transaction consideration, an entity shall assume that the consideration will be received in accordance with the terms of the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

113. If the consideration in the binding arrangement includes a variable amount, an entity shall estimate the amount of the consideration to which the entity expects to collect from the resource provider.

114. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if a fixed amount is promised as a performance bonus on achievement of a milestone specified in the binding arrangement.

115. The variability relating to the consideration may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the consideration is variable if either of the following circumstances exists:

(a) The resource provider has a valid expectation arising from an entity's customary practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the amount stated in the binding arrangement or applicable legislation. That is, it is expected that the entity will offer or accept a reduced amount due to a concession. Depending on the jurisdiction, sector or resource provider, this offer may be referred to as a discount, rebate, refund or credit; or

(b) Other facts and circumstances indicate that the entity's intention, when entering into the arrangement with the resource provider, is to offer a price concession to the resource provider.

Paragraph AG37 provides additional guidance on implicit price concessions.

116. An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it expects to be entitled to:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of

variable consideration if an entity has a large number of binding arrangements with similar characteristics; or

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either completes construction of infrastructure on schedule or not).

117. An entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable consideration to which the entity expects to be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses to estimate the amount receivable. In cases where the binding arrangement requires the entity to transfer distinct goods or services to another party, the information would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund Liabilities

118. An entity may enter into a binding arrangement which includes a right of return. In these cases, the entity shall recognise a refund liability if the entity receives consideration from a resource provider and expects to refund some or all of that consideration to the resource provider relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction consideration). The refund liability (and corresponding change in the transaction consideration and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs AG96–AG103.

Constraining Estimates of Variable Consideration

119. An entity shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 116 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

120. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the consideration (when it is non-cash) or the promised good or service.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

(e) The binding arrangement has a large number and broad range of possible consideration amounts.

121. An entity shall apply paragraphs AG180–AG182 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

122. At the end of each reporting period, an entity shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable inflow is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction consideration in accordance with paragraphs 144–147.

The Existence of a Significant Financing Component in the Binding Arrangement

123. In determining the transaction consideration, an entity shall adjust the amount of consideration for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the resource provider or the entity with a significant benefit of financing the binding arrangement. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the terms agreed to by the parties to the binding arrangement or applicable laws and/or regulations.

124. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the consideration that a resource provider would have transferred if the resource provider had transferred cash (i.e., the cash price) for those goods or services promised in the compliance obligation when (or as) the entity uses them (internally) or transfers them (to the purchaser or third-party beneficiary). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

(a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services in the compliance obligation; and

(b) The combined effect of both of the following:

(i) The expected length of time between when the entity satisfies the compliance obligation (if any) and when the resource provider transfers the consideration; and

(ii) The prevailing interest rates in the relevant market.

125. Notwithstanding the assessment in paragraph 124, a binding arrangement with a resource provider would not have a significant financing component if any of the following factors exist:

(a) The resource provider made the transfer in advance and the timing of when the compliance obligation is satisfied is at the discretion of the resource provider.

(b) A substantial amount of the inflow promised by the resource provider is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the resource provider or the entity.

(c) The difference between the consideration and the cash price of the transfer (as described in paragraph 124) arises for reasons other than the provision of finance to either the resource provider or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the terms might provide the entity or the resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

126. As a practical expedient, an entity need not adjust the consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the entity satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.

127. To meet the objective in paragraph 124 when adjusting the consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its resource provider at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the resource provider or the entity, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the consideration to the price that the resource provider would transfer when (or as) the compliance obligation is satisfied (where applicable). After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the resource provider's credit risk).

128. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements in the statement of comprehensive revenue and expenses. Interest revenue or interest expense is recognised only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognised in accounting for a binding arrangement.

Non-Cash Consideration

129. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its ~~current~~ fair value, in accordance with the relevant PBE Standard, as at the time when the criteria for asset recognition are satisfied.

130. If an entity cannot reasonably estimate the ~~current~~ fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone value of the goods or services that are required to be used internally or transferred to the purchaser or third-party beneficiary (or class of resource provider) for the consideration.

131. The ~~current~~ fair value of the non-cash consideration may vary because of the form of the consideration. If the ~~current~~ fair value of the non-cash consideration promised by a resource provider varies for reasons other than only the form of the consideration, an entity shall apply the requirements in paragraphs 119–121.

132. If a resource provider contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's satisfaction of the binding arrangement, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the resource provider.

Allocating the Transaction Consideration to Compliance Obligations

133. **The objective when allocating the transaction consideration is for an entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations.**

134. To meet the allocation objective, an entity shall allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis in accordance with paragraphs 136–140, except as specified in paragraphs AG107–AG109 (for allocating discounts) and paragraphs 141–143 (for allocating consideration that includes variable amounts). The amount of revenue recognised shall be a proportionate amount of the resource inflow recognised as an asset, based on the estimated percentage of the total compliance obligations satisfied.

135. Paragraphs 136–143 do not apply if a binding arrangement has only one compliance obligation. However, paragraphs 141–143 may apply if an entity promises to use or transfer a series of distinct goods or services identified as a single compliance obligation in accordance with paragraph 68(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Values

136. To allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis, an entity shall determine the stand-alone value at the inception of the binding arrangement of the distinct good or service underlying each compliance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone values.

137. The stand-alone value is the price of a good or service that is required to be used internally or provided separately to a purchaser or third-party. The best evidence of a stand-alone value is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar resource providers. In a binding arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone value of that good or service.

138. If a stand-alone value is not directly observable, an entity shall estimate the stand-alone value at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 133. When estimating a stand-alone value, an entity shall consider all information (including entity-specific factors, information about the resource provider or class of resource provider, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximise the use of observable inputs and apply estimation methods consistently in similar circumstances.

139. Suitable methods for estimating the stand-alone value of a good or service include, but are not limited to, the following:

    (a) Adjusted market assessment approach—an entity could evaluate the market in which it uses or provides goods or services and estimate the price that other entities in that market would be willing to pay for those goods or services, or similar goods or services, and adjusting those prices as necessary to reflect the entity's costs and margins.

    (b) Expected cost approach—an entity could forecast its expected costs of satisfying a compliance obligation and, if applicable, add an appropriate margin for that good or service.

    (c) Residual approach—an entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services to be used or transferred in the binding arrangement. However, an entity may use a residual approach to estimate, in

accordance with paragraph 138, the stand-alone value of a good or service only if one of the following criteria is met:

(i) The entity uses or provides the same good or service to different parties (at or near the same time) for a broad range of amounts (i.e., the price is highly variable because a representative stand-alone value is not discernible from past transactions or other observable evidence); or

(ii) The entity has not yet determined a price for that good or service and the good or service has not previously been provided on a stand-alone basis (i.e., the price is uncertain).

140. A combination of methods may need to be used to estimate the stand-alone values of the goods or services to be used or transferred in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone values. For example, an entity may use a residual approach to estimate the aggregate stand-alone value for those goods or services with highly variable or uncertain stand-alone values and then use another method to estimate the stand-alone values of the individual goods or services relative to that estimated aggregate stand-alone value determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone value of each good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone values would be consistent with the allocation objective in paragraph 133 and the requirements for estimating stand-alone values in paragraph 138.

Allocation of Variable Consideration

141. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

(a) One or more, but not all, compliance obligations in the binding arrangement (for example, a bonus may be contingent on an entity using or transferring a promised good or service within a specified period of time); or

(b) One or more, but not all, distinct goods or services in a series of distinct goods or services that forms part of a single compliance obligation in accordance with paragraph 68(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

142. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation or to a distinct good or service that forms part of a single compliance obligation in accordance with paragraph 68(b) if both of the following criteria are met:

(a) The terms of a variable payment relate specifically to the entity's efforts to satisfy the compliance obligation or use or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or using or transferring the distinct good or service); and

(b) Allocating the variable amount of consideration entirely to the compliance obligation or the distinct good or service is consistent with the allocation objective in paragraph 133 when considering all of the compliance obligations and payment terms in the binding arrangement.

143. The allocation requirements in paragraphs 133–140 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 142.

Changes in the Transaction Consideration

144. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled for satisfying its compliance obligation.

145. An entity shall allocate to the compliance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding arrangement. Amounts allocated to a satisfied compliance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction consideration changes.

146. An entity shall allocate a change in the transaction consideration entirely to one or more, but not all, compliance obligations or distinct goods or services in a series that forms part of a single compliance obligation in accordance with paragraph 68(b) only if the criteria in paragraph 142 on allocating variable consideration are met.

147. An entity shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 63–66. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 144–146 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

    (a) An entity shall allocate the change in the transaction consideration to the compliance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 66(a).

    (b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall allocate the change in the transaction consideration to the compliance obligations in the modified binding arrangement (i.e., the compliance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Other Assets from Revenue Transactions with Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

148. **An entity shall recognise as an asset the incremental costs of obtaining a binding arrangement if the entity expects to recover those costs.**

149. The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).

150. Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the resource provider regardless of whether the binding arrangement is obtained.

151. As a practical expedient, an entity may recognise the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Costs to Fulfil a Binding Arrangement

152. **If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, PBE IPSAS 12 *Inventories*, PBE IPSAS 31, or PBE IPSAS 17), an entity shall recognise an asset from the costs incurred to fulfil a binding arrangement only if those costs meet all of the following criteria:**

    (a) The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved);

    (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) compliance obligations in the future; and

    (c) The costs are expected to be recovered.

153. For costs incurred in fulfilling a binding arrangement that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

154. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:

    (a) Direct labour (for example, salaries and wages of employees who provide the promised services directly to a purchaser or third-party beneficiary);

    (b) Direct materials (for example, supplies used in providing the promised services to a purchaser or third-party beneficiary);

    (c) Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools and equipment ~~and right-of-use assets~~ used in fulfilling the binding arrangement);

    (d) Costs that are explicitly chargeable to the resource provider under the binding arrangement; and

    (e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).

155. An entity shall recognise the following costs as expenses when incurred:

    (a) General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 154);

    (b) Costs of wasted materials, labour or other resources to fulfil the binding arrangement that were not reflected in the price of the binding arrangement;

    (c) Costs that relate to satisfied compliance obligations (or partially satisfied compliance obligations) in the binding arrangement (i.e., costs that relate to past fulfilment); and

    (d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied compliance obligations or to satisfied compliance obligations (or partially satisfied compliance obligations).

Amortisation and Impairment

156. An asset recognised in accordance with paragraph 148 or 152 shall be amortised on a systematic basis that is consistent with the satisfaction of the compliance obligation to which the asset relates. The asset may relate to promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph 152(a)).

157. An entity shall update the amortisation to reflect a significant change in the entity's expected timing of the satisfaction of the compliance obligation to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with PBE IPSAS 3.

158. An entity shall recognise an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognised in accordance with paragraph 148 or 152 exceeds:

    (a) The remaining amount of consideration that the entity expects to receive for the satisfaction of the compliance obligations to which the asset relates; less

    (b) The costs that relate directly to satisfying the compliance obligations and that have not been recognised as expenses (see paragraph 154).

159. For the purposes of applying paragraph 158 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction consideration (except for the requirements in paragraphs 119–121 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the resource provider's credit risk.

160. Before an entity recognises an impairment loss for an asset recognised in accordance with paragraph 148 or 152, the entity shall recognise any impairment loss for assets related to the binding arrangement that are recognised in accordance with another Standard (for example, PBE IPSAS 12, PBE IPSAS 31, and PBE IPSAS 17). After applying the impairment test in paragraph 158, an entity shall include the resulting carrying amount of the asset recognised in accordance with paragraph 148 or 152 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying PBE IPSAS 26 *Impairment of Cash-Generating Assets* to that cash-generating unit.

161. An entity shall recognise in surplus or deficit a reversal of some or all of an impairment loss previously recognised in accordance with paragraph 158 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

Presentation

~~Display~~

162. When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the resource provider's transfer of consideration. An entity shall present any unconditional rights to consideration separately as a receivable.

163. If a resource provider transfers cash or another asset, or an entity has a right to consideration that is unconditional (i.e., a receivable), before the entity satisfies its compliance obligation, the entity shall present the binding arrangement as a binding arrangement liability when the transfer of consideration is made or is due (whichever is earlier). A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received consideration (or an amount of an unconditional transfer of consideration is due) from the resource provider.

164. If an entity performs by satisfying a compliance obligation before the transfer of consideration is received or before the unconditional transfer of consideration is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time. An entity shall assess a binding arrangement asset for impairment in accordance with PBE IPSAS 41. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of PBE IPSAS 41 (see also paragraph 177(b)).

165. A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before consideration is due. For example, an entity would recognise a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. In accordance with paragraph 31, an entity shall subsequently measure a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable, any difference between the measurement of the receivable in accordance with PBE IPSAS 41 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).

166. This Standard uses the terms "binding arrangement asset" and "binding arrangement liability" but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Disclosure

Commented [LV4]: Note to Board Members (Q3 and Q4)
The Board has not yet considered RDR concessions for Tier 2 public benefit entities.
Refer to agenda item 7.2 where this is covered in detail.
To facilitate understanding, we have highlighted disclosure paragraphs that align with NZ IFRS 15 in pink and PBE IPSAS 23 in orange.

167. **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**

   (a) Its revenues from transactions without binding arrangements (see paragraphs 172–176);

   (b) Its revenues from transactions with binding arrangements (see paragraphs 177–187);

   (c) The significant judgements, and changes in the judgements, made in applying this Standard to those binding arrangements (see paragraphs 188–190); and

   (d) Any assets recognised from the costs to obtain or fulfil a binding arrangement with a resource provider in accordance with paragraph 148 or 152 (see paragraphs 191–192).

168. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics. See paragraphs AG203–AG204 for additional guidance.

169. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

   (a) The amount of revenue from transactions recognised during the period, showing separately, and by major classes:

      (i) Taxes;

  - **(ii) Other compulsory contributions and levies;**
  - **(iii) Transfers; and**
  - **(iv) Compliance obligations in a binding arrangement.**

(b) The amount of receivables recognised at the reporting date in respect of revenue;

(c) The amount of liabilities recognised at the reporting date in respect of transferred assets subject to compliance obligations;

(d) The amount of liabilities recognised at the reporting date in respect of concessionary loans that are subject to requirements on transferred assets;

(e) The existence and amounts of any advance receipts in respect of transactions; and

(f) The amount of any liabilities forgiven.

170. **An entity shall disclose in the notes to the general purpose financial statements:**

(a) The accounting policies adopted for the recognition of revenue;

(b) The judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue;

(c) For major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured;

(d) For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;

(e) The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and

***(f) Qualitative and quantitative information about services in-kind that have been recognised.**

171. A public benefit entity may have a revenue transaction where the entity is compelled to satisfy an obligation for or impose a cost on the counterparty in the transaction, and the face value of the revenue transaction may not always be collectible. This may occur when the entity is compelled by way of legislation, constitutional authority, legally sanctioned process and policy decisions, or other mechanisms, and the counterparty may not have the ability or intention to pay. Examples of such transactions include revenue from taxes or fines without binding arrangements, or revenue from satisfying a compliance obligation by providing goods or services to a third-party beneficiary in a binding arrangement. The entity shall disclose the following:

(a) A description of the legislation or policy decision which compels a party in the revenue transaction to satisfy its obligation to the entity in the revenue transaction;

(b) The amount of revenue from these transactions that was recognised after application of paragraphs 25 and 105 of this Standard, or the amount of revenue recognised after consideration of an implicit price concession from the application of paragraph 115;

(c) The amount from these transactions that was not recognised as revenue, as the collection of consideration was not probable in accordance with paragraph 119, or as the amount from these transactions that was

not recognised as revenue as it was considered to be an implicit price concession from the application of paragraph 115; and

(d) If the transaction consideration has been reduced after consideration of an implicit price concession from the application of paragraph 115, an entity shall disclose the following:

(i) The amount from these transactions that was recognised as revenue after identification of the implicit price concession; and

(ii) The amount from these transactions that was not recognised as revenue, as it was considered an implicit price concession.

Specific Disclosure for Revenue without Binding Arrangements

172. As noted in paragraph 46, in many cases an entity will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has or have elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.

173. Paragraph 169(e) requires an entity to disclose the existence of advance receipts. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding.

174. Paragraph 170(e) requires an entity to make disclosures about the nature and type of major classes of bequests, gifts, and donations it has received. These inflows of resources are received at the discretion of the resource provider, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly.

*175 Entities that do not recognise services in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the entity. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

176. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. Paragraph 175 strongly encourages an entity to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgements about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

Specific Disclosure for Revenue with Binding Arrangements

177. **An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive revenue and expenses in accordance with other Standards:**

(a) Revenue recognised from binding arrangements with compliance obligations, separately from its other sources of revenue; and

(b) Any impairment losses recognised (in accordance with PBE IPSAS 41) on any receivables or binding arrangement assets arising from an entity's binding arrangements, which the entity shall disclose separately from impairment losses from other binding arrangements.

178. Compliance obligations impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognised in respect of compliance obligations assists users in making judgements about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 169(c).

Disaggregation of Revenue

179. An entity shall disaggregate revenue recognised from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG205–AG207 when selecting the categories to use to disaggregate revenue.

180. [Not used]~~In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 179) and revenue information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.~~

Commented [LV5]: Note to Board Members
This paragraph has been removed as IPSAS 18 Segment Revenue does not form part of the PBE Standards.

Binding Arrangement Balances

181. An entity shall disclose all of the following:

(a) The opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements, if not otherwise separately presented or disclosed;

*(b) Revenue recognised in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and

*(c) Revenue recognised in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).

*182. An entity shall explain how the timing of satisfaction of its compliance obligations (see paragraph 184(a)) relates to the typical timing of payment (see paragraph 184(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.

*183. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:

(b) Changes due to PBE combinations;

(c) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

(d) Impairment of a binding arrangement asset;

(e) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and

(f) A change in the time frame for a compliance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability).

Compliance Obligations

184. An entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:

(a) When the entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance obligations are satisfied in a bill-and-hold arrangement;

(b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 119–121);

(c) The nature of the compliance obligations the entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (i.e., if the entity is acting as an agent);

(d) Obligations for returns, refunds and other similar obligations; and

(e) Types of warranties and related obligations.

Transaction Consideration Allocated to the Remaining Compliance Obligations

*185. An entity shall disclose the following information about its remaining compliance obligations:

(f) The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(g) An explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 185(a), which the entity shall disclose in either of the following ways:

(i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining compliance obligations; or

(ii) By using qualitative information.

*186. As a practical expedient, an entity need not disclose the information in paragraph 185 for a compliance obligation if either of the following conditions is met:

(h) The compliance obligation is part of a binding arrangement that has an original expected duration of one year or less; or

(i) The entity recognises revenue from the satisfaction of the compliance obligation in accordance with paragraph AG90.

*187. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 186 and whether any consideration from binding arrangements is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 185. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 119–121).

Significant Judgements in the Application of this Standard

Determining the Timing of Satisfaction of Compliance Obligations

188. For compliance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) The methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

*(b) An explanation of why the methods used provide a faithful depiction of the use or transfer of goods or services.

189. For compliance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a compliance obligation is satisfied.

Determining the Transaction Consideration and the Amounts Allocated to Compliance Obligations

*190. An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) Assessing whether an estimate of variable consideration is constrained;

(c) Allocating the transaction consideration, including estimating stand-alone values of promised goods or services, and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and

(d) Measuring obligations for returns, refunds and other similar obligations.

Assets Recognised from the Costs to Obtain or Fulfil a Binding Arrangement with a Resource Provider

191. An entity shall describe both of the following:

*(a) The judgements made in determining the amount of the costs incurred to obtain or fulfil a binding arrangement with a resource provider (in accordance with paragraph 148 or 152); and

(b) The method it uses to determine the amortisation for each reporting period.

192. An entity shall disclose all of the following:

*(a) The closing balances of assets recognised from the costs incurred to obtain or fulfil a binding arrangement with a resource provider (in accordance with paragraph 148 or 152), by main category of asset (for example, costs to obtain binding arrangements with resource providers, pre-binding arrangement costs and setup costs); and

(b) The amount of amortisation and any impairment losses recognised in the reporting period.

RDR192.1 A Tier 2 entity is required to disclose the closing balances of assets recognised from the costs incurred to obtain or fulfil a binding arrangement with a resource provider (in accordance with paragraph 148 or 152).

Question 3 to Board members

Refer to paragraphs 9 - 12 in agenda item 7.2.

a. Does the Board agree with the Tier 2 exemptions in the draft ED IPSAS 47 that align with NZ IFRS 15 and PBE IPSAS 23 exemptions?

b. Does the Board agree with the inclusion of paragraph RDR192.1?

Question 4 to Board members

Refer to paragraphs 13 - 14 in agenda item 7.2.

Does the Board agree not to provide Tier 2 disclosure concessions for paragraphs 167(a), 170(b), 171 and 178?

Practical Expedients

193. If an entity elects to use the practical expedient in either paragraph 126 (about the existence of a significant financing component) or paragraph 151 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Commencement and Application

Commented [LV6]: Note to Board Members
The highlighted wording in paragraphs 194 - 203 is in line with legislative requirements relating to commencement and application of an XRB accounting standard.

194. **An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs 194.1–194.3. An entity that applies this Standard to an 'early adoption accounting period' shall disclose that fact in the notes.**

When the Standard takes effect (section 27 Financial Reporting Act 2013)

194.1 This Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

194.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

194.3 In paragraph 194.2:

Early adopter means a reporting entity that applies this Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and

(b) For which the early adopter:

(i) First applies this Standard in preparing its financial report;

(ii) Applies PBE IPSAS 47 *Revenue* at the same time; and

(iii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

Mandatory date means 1 January 2028.

195. [Not used].

Transition

Commented [LV7]: Note to Board Members (Q5)
The Board has not yet considered the transition requirements in PBE IPSAS 47. Refer to agenda item 7.2 where this is covered in more detail.

196. For the purposes of the transition requirements in paragraphs 197–203:

(a) The date of initial application is the start of the reporting period in which an entity first applies this Standard; and

(b) A completed binding arrangement is a binding arrangement for which:

(i) The entity has satisfied all of the conditions identified in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*; or

(ii) The entity has satisfied all of its promises identified in accordance with PBE IPSAS 9 *Revenue from Exchange Transactions* and PBE IPSAS 11 *Construction Contracts*.

197. An entity shall apply this Standard using one of the following two methods:

(a) ~~Retrospectively~~To each prior reporting period presented in accordance with PBE IPSAS 3, as if this Standard had always been applied, subject to the expedients in paragraph 199; or

(b) ~~Retrospectively~~ As if this Standard has always been applied, with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs 201–203.

198. Notwithstanding the requirements of paragraph 33 of PBE IPSAS 3, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of PBE IPSAS 3 for the annual period immediately preceding the first annual period for which this Standard is applied (the "immediately preceding period") and only if the entity applies this Standard as if it had always been applied ~~retrospectively~~ in accordance with paragraph 197(a)). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

199. An entity may use one or more of the following practical expedients when applying this Standard ~~retrospectively~~ in accordance with paragraph 197(a):

(a) For completed binding arrangements, an entity need not restate binding arrangements that:

(i) Begin and end within the same annual reporting period; or

(ii) Are completed binding arrangements at the beginning of the earliest period presented.

(b) For completed binding arrangements that have variable consideration, an entity may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 65–66. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) Identifying the satisfied and unsatisfied compliance obligations;

(ii) Determining the transaction consideration; and

(iii) Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.

(d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the remaining compliance obligations and an explanation of when the entity expects to recognise that amount as revenue.

200. For any of the practical expedients in paragraph 199 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

(b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

201. If an entity elects to apply this Standard ~~retrospectively~~ in accordance with paragraph 197(b), the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this Standard as if it had always applied ~~retrospectively~~ only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for an entity with a December 31 year-end).

202. An entity applying this Standard ~~retrospectively~~ in accordance with paragraph 197(b) may also use the practical expedient described in paragraph 199(c), either:

(a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or

(b) For all modifications to a binding arrangement that occur before the date of initial application.

If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 200.

203. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied ~~retrospectively~~ in accordance with paragraph 197(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to PBE IPSAS 9, PBE IPSAS 11, and PBE IPSAS 23; and

(b) An explanation of the reasons for significant changes identified.

Question 5 to Board members

Refer to paragraphs 15-17 in agenda item 7.2.

Does the Board agree that the transitional provisions in paragraph 196 - 203 (which are substantively aligned with IPSAS 47) are appropriate in the New Zealand context?

Withdrawal of Other Standards

204. This Standard supersedes the following Standards:

(a) PBE IPSAS 9, issued in 2014;

(b) PBE IPSAS 11, issued in 2014; and

(c) PBE IPSAS 23, issued in 2014.

PBE IPSAS 9, PBE IPSAS 11, and PBE IPSAS 23 remain applicable until PBE IPSAS 47 is applied (refer to paragraph 194 ~~or becomes effective, whichever is earlier.~~

Appendix A

Application Guidance

This Appendix is an integral part of PBE IPSAS 47.

AG1. This Application Guidance is organised into the following categories:

(a) Scope (paragraphs AG2–AG9);

(b) Definitions (paragraphs AG10–AG12);

(c) Identify the Revenue Transaction (paragraphs AG13–AG31);

(i) Enforceability (paragraphs AG14–AG25);

(ii) Parties in an Arrangement (paragraphs AG26–AG31);

(d) Revenue from Transaction with Binding Arrangements (paragraphs AG32–AG138);

(i) Criteria for the Binding Arrangement Accounting Model (paragraphs AG32–AG39);

(ii) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG40–AG42);

(iii) Identifying Compliance Obligations in a Binding Arrangement (paragraphs AG43–AG56);

(iv) Initial Recognition of Revenue (paragraphs AG57–AG58);

(v) Existence and Recognition of a Liability (paragraphs AG59–AG62);

(vi) Satisfaction of Compliance Obligations (paragraphs AG63–AG81);

(vii) Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraphs AG82–AG85);

(viii) Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs AG86–AG95);

(ix) Right of Return for a Transfer of Goods or Services to Another Party (paragraphs AG96–AG103);

(x) Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraphs AG104–AG106);

(xi) Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraphs AG107–AG109);

(xii) Determination of the Stand-Alone Value (paragraph AG110);

(xiii) Warranties for Goods or Services Transferred to Another Party (paragraphs AG111–AG116);

(xiv) Principal Versus Agent Considerations (paragraphs AG117–AG125);

(xv) Resource Provider Options for Additional Goods or Services (paragraphs AG126–AG130);

(xvi) Resource Providers' Unexercised Rights (paragraphs AG131–AG134);

(xvii) Non-Refundable Upfront Fees (and Some Related Costs) for a Transfer of Goods or Services to Another Party (paragraphs AG135–AG138);

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

(i) Capital Transfers (paragraphs AG140–AG142);

(ii) Services In-Kind (paragraphs AG143–AG149);

(iii) Pledges (paragraph AG150);

(iv) Advance Receipts of Transfers (paragraph AG151);

(v) Concessionary Loans (paragraphs AG152–AG153);

(vi) Measurement of Transferred Assets (paragraph AG154);

(vii) Debt Forgiveness and Assumptions of Liabilities (paragraphs AG155–AG158);

(viii) Fines (paragraphs AG159–AG160);

(ix) Bequests (paragraphs AG161–AG163);

(x) Gifts and Donations, including Goods In-Kind (paragraphs AG164–AG167);

(xi) Licensing (paragraphs AG168–AG182);

(xii) Repurchase Agreements (paragraphs AG183–AG196);

(xiii) Consignment Arrangements (paragraphs AG197–AG198);

(xiv) Bill-and-Hold Arrangements (paragraphs AG199–AG202); and

(f) Disclosure (paragraphs AG203–AG207);

(i) Disclosure of Disaggregated Revenue (paragraphs AG205–AG207).

Scope (paragraph 3)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for revenue transactions. Revenue may arise from transactions without binding arrangements or with binding arrangements. The definitions in paragraph 4 establish the key elements in applying the scope of the Standard.

AG3. While taxation is the major source of revenue for many governments, other public benefit entities rely on transfers (sometimes known as grants) and other sources of funding. Examples of these revenues include, but are not limited to:

(a) Taxes;

(b) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received; and

(c) Capital transfers.

AG4. This Standard specifies the accounting for the incremental costs of obtaining a binding arrangement and for the costs incurred to satisfy a binding arrangement if those costs are not within the scope of another Standard (see paragraphs 148–161). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement (or part of that binding arrangement) that is within the scope of this Standard.

Scope Exclusions

AG5. Gains from the sale of non-financial assets within the scope of PBE IPSAS 16 *Investment Property*, PBE IPSAS 31 *Intangible Assets*, or PBE IPSAS 17, *Property, Plant, and Equipment*, that are not an output of an

entity's activities are not considered revenue. However, the recognition and measurement principles within this Standard may be applied to account for the disposals of such assets.

AG6. This Standard does not apply to public benefit entity combinations. A public benefit entity combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all of the assets and liabilities of another operation or entity. Public benefit entity combinations are accounted for in accordance with PBE IPSAS 40 *PBE Combinations*.

AG7. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Contributions from owners are defined in PBE IPSAS 1 *Presentation of Financial Reports*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition, and to consider the substance rather than the form of the transaction. A contribution from owners may be evidenced by, for example:

(a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;

(b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or

(c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

AG8. Agreements that (a) specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

AG9. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognises it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners but specifies that the entity will pay fixed distributions to the resource provider, with a return of the resource provider's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in PBE IPSAS 28 *Financial Instruments: Presentation*, when distinguishing liabilities from contributions from owners.

Definitions (paragraphs 4–8)

Binding Arrangement

AG10. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations conferred on them in the arrangement.

AG11. This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this Standard to a portfolio of binding arrangements (or compliance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial

statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

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

Identify the Revenue Transaction (paragraphs 9–15)

AG13. An entity shall consider the terms of its revenue transaction and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to arrangements with similar characteristics and in similar circumstances.

Enforceability

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

AG15. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name; however, 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 resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for 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 entity to obligate the resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG16. ~~In the public sector, a~~ An arrangement is enforceable when each of the parties in the arrangement is able to enforce their respective rights and obligations. An arrangement is enforceable if the agreement includes:

(a) Clearly specified rights and obligations for each involved party; and

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

AG17. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their

obligation(s) in the arrangement, through legal or equivalent means. If the entity is not able to determine how the mechanisms of enforceability identified would in substance enable the entity to hold the other parties in the arrangement accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG18. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG19. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the stated obligations in the arrangement.

AG20. 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 satisfy the stated obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfil the promises established within the arrangement or to seek redress should these promises not be satisfied.

AG21. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of obligations by an entity, this may result in a valid enforcement mechanism.

AG22. An entity may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the other party. 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 Standard because there is no obligation on the resource provider to provide such funding. However, if the entity 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 the future funding if other arrangements are breached, then the reduction in future funding could be considered a valid enforcement mechanism.

AG23. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgement based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are the resource provider's ability to reduce future funding and its past history of doing so.

AG24. A statement of intent or public announcement by a resource provider (e.g., government) to spend money or deliver goods and/or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a resource provider and an entity (resource recipient).

AG25. In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations, but they have not been historically enforced. If past experience with a resource provider indicates that the resource provider 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 the arrangement is not considered enforceable. However, if the entity has no experience with the resource provider, or has not previously breached any terms that would prompt the resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the resource provider would enforce the terms, and 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 for enforcing the rights and satisfying the obligations they agreed to in the arrangement.

Parties in an Arrangement

AG26. Arrangements in the not-for-profit and public sector ~~often~~ may include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

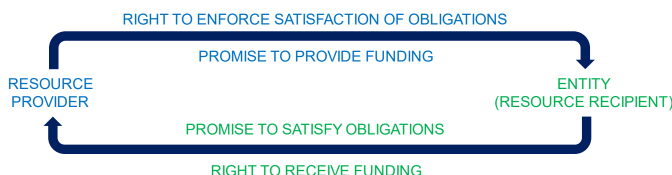
AG27. For ~~public sector specific~~ transactions with binding arrangements, the resource provider is the party that provides consideration to the entity for goods or services set out in a binding arrangement but is not necessarily the party that receives those goods or services. The resource provider may provide consideration for the entity to:

(a) Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return;

(b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser[8], as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or

(c) Transfer distinct goods or services to a third-party beneficiary. In multi-party arrangements (discussed below), the resource provider has a binding arrangement with and provides consideration to the entity to deliver goods or services to a third-party beneficiary. For example, if a central government provides funding to a ~~regional~~local health department to conduct bone density screening for citizens over the age of 55, the central government is the resource provider and the citizens are the third-party beneficiaries. The resource provider can enforce delivery of those goods or services or seek recourse from the entity if the promises in the binding arrangement are not satisfied.

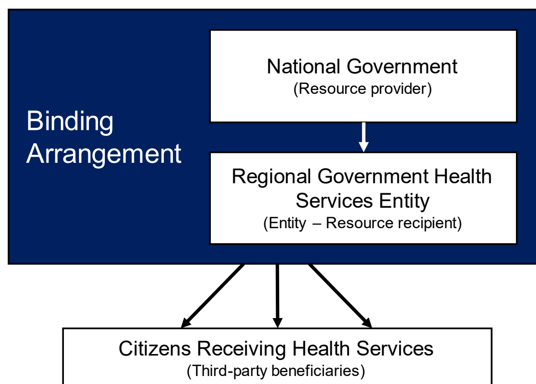
AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must



[8] A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. A customer is a type of purchaser.

be able to enforce satisfaction 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:

AG29. 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 or services. However, for these multi-party arrangements to be within the scope of this Standard the resource provider must have the ability to force the entity to deliver distinct goods or services to the third-party beneficiaries. In these multi-party arrangements, the entity (resource recipient) is not an agent of the resource provider because the entity gains control of the consideration from the resource provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram:



(a) In assessing enforceability of an arrangement, the entity considers not only its ability to enforce its right to receive funds related to the completed obligation(s), but also the resource provider's ability to compel the entity to satisfy its obligations.

AG30. Some revenue transactions may be enforceable, but only create enforceable rights and obligations for one party in the arrangement. These transactions do not meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.

Revenue from Transactions with Binding Arrangements

Criteria for the Binding Arrangement Accounting Model (paragraphs 56–61)

Economic Substance

AG31. An entity shall determine whether a transaction with a binding arrangement that requires a transfer of distinct goods or services to a purchaser or third-party beneficiary 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:

(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

(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

(c) The differences in (a) and (b) are significant relative to the fair~~current~~ value of the assets exchanged.

AG32. 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.

AG33. For the purposes of this Standard, economic substance includes commercial substance.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph 56(e)

AG34. An entity should apply judgement in considering the facts and circumstances upon entering into a binding arrangement to assess the resource provider's ability and intent at inception to pay the expected consideration at a future date.

AG35. 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 resource provider in the binding arrangement. This initial assessment may differ from actual consideration collected subsequently as a result of changes in conditions or expectations. Such changes would be reflected as either impairment (decline from initial circumstances) or recognition of the full consideration (exceeding the expected collection determined at inception).

AG36. A price concession may be provided as part of the binding arrangement. A price concession is generally known by the parties at the inception of the binding arrangement, either implicitly or explicitly, and potentially informed by past history with the parties. This Standard typically measures revenue based on the transaction consideration to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other 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 resource provider than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 109 and 115(b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph 56(e).

AG37. In some binding arrangements, entities are compelled by legislation to provide certain goods or 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.

AG38. When payment of the consideration, less any price concession, is not probable for delivering the good or service to certain groups of citizens, the criterion for identifying a binding arrangement in paragraph 56(e) is not met. In these circumstances, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraph 58 of this Standard.

Breach of Terms and Conditions of a Binding Arrangement

AG39. The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on:

(a) Whether there are any incomplete compliance obligations remaining under the arrangement;

(b) When the breach occurred – i.e., whether it was in the period in which the breach is discovered or in a prior period; and

(c) The reason for the breach.

AG40. If the breach occurs in the current period and is identified before the authorisation of the financial statements for issue, the entity will recognise a liability for the amount to be refunded to the resource provider and derecognise any revenue recognised during the reporting period.

AG41. Where the breach is determined to have occurred in a prior period, the accounting treatment will be decided by assessing whether the breach has resulted in a:

(a) Change in accounting estimate as defined in PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates, and Errors*. Accounting estimates are used where items in financial statements cannot be measured with precision and judgement may be required in measuring those items as described in PBE IPSAS 3;

(b) Prior period error which has arisen from a failure to use, or from the misuse of, faithfully representative information that was available when the financial statements for the period were authorised for issue or could reasonably be expected to have been obtained; or

(c) Separate past event because the amount recognised in prior period financial statements is not an estimated amount and was based on the use of faithfully representative information available at the date of the approval of the financial statements for the relevant reporting period.

Identifying Compliance Obligations in a Binding Arrangement (paragraphs 68–77)

Promises to Use Resources

AG42. A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for a distinct good or service or transfer a distinct good or service to a purchaser (i.e., resource provider) or third-party beneficiary. The objectives of a compliance obligation may be incremental to the entity's service delivery objectives, or additional objectives in which the entity has engaged through the binding arrangement. The promise to use resources results in other resources (i.e., distinct goods or services that provide rights to economic benefits or service potential, or both) for either the reporting entity or another external party (either the purchaser or a third-party beneficiary. See paragraph AG49 for further guidance). The entity may also receive the benefit of the good or service but directs the use of the benefit to other parties.

AG43. This Standard requires an entity to appropriately identify any compliance obligations when it enters into a binding arrangement, and then recognise revenue as or when it satisfies each of the identified compliance obligations in accordance with the terms and conditions of the binding arrangement.

AG44. ~~In the public sector,~~Identifying compliance obligations may require significant judgement. A necessary condition for the existence of a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. An entity considers the following factors in identifying whether a promise is sufficiently specific:

(a) The nature or type of the promise to use resources;

(b) The cost or value of the distinct goods or services from the promise to use resources;

(c) The quantity of the distinct goods or services from the promise to use resources; and

(d) The period over which the use of resources occurs.

AG45. The existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a compliance obligation as defined in this Standard. A performance indicator is a type of

performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator is often an internally imposed measure of performance and not a compliance obligation.

Promises to Use Resources Internally

AG46. In many instances, an entity's promise in a binding arrangement requires the entity to use resources internally for a distinct good or service to achieve specific service delivery objectives. Examples of resources provided to a public benefit entity in a binding arrangement may include:

(a) Transfers from ~~national~~central governments to ~~provincial, state or~~ local governments;

(b) [Not used]Transfers from state/provincial governments to local governments;

(c) Transfers from governments to other public benefit~~sector~~ entities, including not-for-profit entities;

(d) Transfers to governmental agencies that are created by laws or regulations to perform specific functions with operational autonomy, such as statutory authorities or ~~regional~~local boards or authorities; and

(e) Transfers from donor agencies to governments or other public ~~sector~~ benefit entities (including not-for-profit entities ~~such as charitable organisations~~).

Commented [LV8]: Note to Board Members (Q6)
Sub-paragraphs (a)-(e) has been aligned with paragraph 52(b) of PBE IPSAS 23. The list of examples in this paragraph is equivalent to the list of examples in para 52(b) of IPSAS 23 – and in PBE IPSAS 23, we modified the wording of some of these examples for consistency with the NZ environment. Word added are underlined and strikethrough words have been deleted.

Question 6 to Board members

Refer to paragraphs 7(c) in agenda item 7.2.

Does the Board agree with the adjustments to application guidance paragraph AG46?

AG47. A resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms. The compliance obligations may be imposed by requirements in binding arrangements establishing the basis of transfers, or may arise from the normal operating environment, such as the recognition of advance receipts.

Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG48. In some instances, an entity's promise in a binding arrangement requires the entity to use resources to transfer a distinct good or service to an external party or parties (i.e., to the purchaser (resource provider) or a third-party beneficiary) identified in the binding arrangement, in compliance with the terms and conditions of the binding arrangement. In practice, an entity will consider whether it maintains control of the resources, or the resources are converted into a good and/or service and are required to be transferred to the resource provider or a third-party beneficiary. In this case, the resource provider is effectively a purchaser of distinct goods or services from the entity.

AG49. A key feature distinguishing an entity's promise to transfer a distinct good or service from other promises in the binding arrangement is the clear identification of an external party receiving the distinct goods or services. A binding arrangement which imposes an obligation on an entity to transfer a distinct good or service to a specified external party (i.e., the purchaser or a specified third-party beneficiary) generally provides a clear indicator of specificity and transfer of control of the economic benefits and service potential of the resources from the entity to the external party.

AG50. Depending on the binding arrangement, goods or services promised in a compliance obligation may include, but are not limited to, the following:

(a) Provision of goods produced by an entity (for example, inventory such as publications or council water provided for a fee);

(b) Purchase of goods by an entity and provided to citizens (for example, waste collection bins);

(c) Resale of rights to goods or services purchased by an entity (for example, an emission allowance resold by an entity acting as a principal, see paragraphs AG117–AG125);

(d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination programme for children provided by a hospital that was funded by a government for that purpose);

(e) Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities);

(f) Providing a service of standing ready to provide goods or services (for example, paramedics on site at an athletic competition organised by a community group);

(g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see paragraphs AG117–AG125);

(h) Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, the health department providing drugs and supplements to pharmacies promises to transfer an additional good or service to clinics that purchase the drugs and supplements from the pharmacies);

(i) Constructing, manufacturing or developing an asset on behalf of a purchaser (for example, a government agency ~~works department~~ building a recreational facility for a council ~~nother municipality~~);

(j) Granting licenses (see paragraphs AG168–AG182); and

(k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG126–AG130)).

AG51. An entity earns and recognises revenue when it satisfies a compliance obligation by transferring a promised good or service to a purchaser or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services. Paragraph 18 provides indicators of control, which include:

(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and

(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.

Identifying Distinct Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG52. Promises to use resources to transfer distinct goods or services to an external party generally have a greater degree of specificity. An entity is required to clearly identify such compliance obligations in order to complete a more objective analysis and precise account for the recognition and measurement of revenue from these transactions.

AG53. In cases where a binding arrangement includes a compliance obligation to transfer distinct goods or services to a purchaser or third-party beneficiary, a good or service promised is distinct if both of the following criteria are met (see paragraph 73):

(a) The promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential either on its own or together with other resources that are readily available to the party receiving the good or service (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG54. In such binding arrangements, the promise to use resources to transfer distinct goods or services to the purchaser or a third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential when the entity's transfer of the good or service to the party receiving the goods or services contributes to the purchaser achieving its service delivery objectives.

AG55. Compliance obligations that require the transfer of promised goods or services to the purchaser or a third-party beneficiary are separately identifiable (i.e., distinct) from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that promise is satisfied. Therefore, it is possible to have several compliance obligations in one binding arrangement.

Initial Recognition of Revenue Transactions with a Binding Arrangement (paragraph 78)

AG56. In accordance with paragraph 78, when a binding arrangement is wholly unsatisfied, an entity shall not recognise any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. An entity's rights and obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined rights and obligations constitute a single asset or liability that is measured at zero. Individual rights and obligations are recognised as items (assets, liabilities, revenue and expenses depending on their nature) only when (or as) one or more parties to the binding arrangement satisfy their obligations.

AG57. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognise any asset, liability or revenue for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Existence and Recognition of a Liability (paragraphs 81–86)

AG58. An entity's compliance obligation in a binding arrangement may give rise to a liability. A liability is defined as a present obligation of the entity to transfer resources as a result of past events.

A Present Obligation

AG59. A present obligation may be legally binding (i.e., through legal or equivalent means) or non-legally binding. A compliance obligation is a legally binding present obligation, in revenue transactions with binding arrangements, to use resources in compliance with the terms of the binding arrangement. All binding arrangements include at least one compliance obligation.

As a Result of Past Events

AG60. Public benefit entities may willingly enter into binding arrangements in order to deliver their service objectives and obtain assets from governments or other entities, or by purchasing or producing them. A liability may exist as a result of past events, specifically when:

(a) The entity enters into a binding arrangement with one or more parties; and

(b) The resource provider has provided promised resources before the entity satisfies the associated compliance obligation(s) (i.e., the entity has received a prepayment and the binding arrangement is partially satisfied).

Transactions or events expected to occur in the future do not in themselves give rise to compliance obligations.

A Transfer of Resources

AG61. The enforceability of a binding arrangement provides each party in the arrangement with the ability to hold the parties accountable to either satisfy their compliance obligations or face consequences if they do not satisfy their compliance obligations. When the entity has received resources after entering into a binding arrangement as a willing party, a liability exists if the consequence of the entity not satisfying its compliance obligation, as a result of these past events, is to transfer resources to another party (e.g., to the resource provider). Examples of consequences of non-compliance requiring a transfer of resources include, but are not limited to, repaying the resources to the resource provider or incurring some other form of penalty. Such a consequence requires a transfer of resources that the entity would not otherwise have had to transfer (i.e., incremental) had it not willingly entered into the binding arrangement and received resources from the resource provider associated with an unsatisfied or partially unsatisfied obligation (i.e., as a consequence of past events).

Satisfaction of Compliance Obligations (paragraphs 87–104)

Compliance Obligations to Use Resources for Goods or Services Internally

AG62. Paragraph 92 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

(c) The entity has an enforceable right to consideration for performance completed to date (see paragraphs AG67–AG71).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 92(a))

AG63. For some types of compliance obligations, the assessment of whether the entity receives the economic benefits or service potential provided by the entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a daily volunteer service) in which the receipt and simultaneous consumption of the economic benefits or service potential by the entity as it satisfies its compliance obligation can be readily identified.

AG64. For other types of compliance obligations, an entity may not be able to readily identify whether the entity simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and

(b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (paragraph 92(b))

AG65. In determining whether the entity controls an asset as it is created or enhanced in accordance with paragraph 92(b), an entity shall apply the requirements for control in paragraphs 89–90, 94, and AG183-AG196. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Right to Consideration for Performance Completed to Date (paragraph 92(c))

AG66. In accordance with paragraphs 92(c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its compliance obligations completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services used to date for no charge or for a nominal charge, or the price of the goods or services used to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or

(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

AG67. An entity's right to consideration for compliance obligations completed to date need not be a present unconditional right to consideration. In many cases, an entity will have an unconditional right to consideration only at an agreed-upon milestone or upon complete satisfaction of the compliance obligation. In assessing whether it has a right to consideration for compliance obligations completed to date, an entity shall consider whether it would have an enforceable right to demand or retain consideration for compliance obligations completed to date if the binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised.

AG68. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to use resources internally for distinct goods or services in compliance with the binding arrangement and require the resource provider to pay the consideration promised in exchange for those satisfied compliance obligations. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).

AG69. In assessing the existence and enforceability of a right to consideration for compliance obligations completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

(a) Legislation, administrative practice or legal precedent confers upon the entity a right to consideration for performance to date even though that right is not specified in the binding arrangement with the resource provider;

(b) Relevant legal precedent indicates that similar rights to consideration for performance completed to date in similar binding arrangements have no binding legal effect; or

(c) An entity's customary practices of choosing not to enforce a right to consideration has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to consideration in similar binding arrangements, an entity would continue to have a right to consideration to date if, in the binding arrangement with the resource provider, its right to consideration for performance to date remains enforceable.

AG70. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to consideration for compliance obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a resource provider, the payment schedule might not necessarily provide evidence of the entity's right to consideration for compliance obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the resource provider is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Compliance Obligations to Transfer Goods or Services to Another Party

AG71. Paragraph 95 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The purchaser (the resource provider in the binding arrangement) or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG76–AG78) and the entity has an enforceable right to consideration for performance completed to date (see paragraphs AG79–AG81).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph 95(a))

AG72. For some types of compliance obligations, the assessment of whether a resource provider receives the economic benefits or service potential of an entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified.

AG73. For other types of compliance obligations, an entity may not be able to readily identify whether a resource provider simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation to the resource provider. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and

(b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (paragraph 95(b))

AG74. In determining whether a resource provider controls an asset as it is created or enhanced in accordance with paragraph 95(b), an entity shall apply the requirements for control in paragraphs 89–90, 97, and AG183–AG185. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Satisfaction does not Create an Asset with an Alternative Use (paragraph 95(c))

AG75. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs 95(c) and 96, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different entity. The possibility of the binding arrangement with the resource provider being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

AG76. A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a resource provider could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another resource provider without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG77. A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a resource provider or are located in remote areas.

Right to Consideration for Performance Completed to Date (paragraph 95(c))

AG78. In accordance with paragraphs 95(c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or

(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

AG79. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser or third-party beneficiary the goods or services promised in the binding arrangement and require the resource provider to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).

AG80. An entity should also consider paragraphs AG68, AG70 and AG71 in assessing its right to consideration for performance completed to date related to compliance obligations that require a transfer of goods or services to another party.

Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraph 97)

AG81. In accordance with paragraph 97(e), a resource provider's acceptance of an asset may indicate that the resource provider has obtained control of the asset. Resource provider acceptance clauses may allow the resource provider to cancel a binding arrangement or require an entity to take remedial action if a good or

service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the resource provider obtains control of a good or service.

AG82. If an entity can objectively determine that control of a good or service has been transferred to the resource provider in accordance with the agreed-upon specifications in the binding arrangement, then resource provider acceptance is a formality that would not affect the entity's determination of when the resource provider has obtained control of the good or service. For example, if the acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of resource provider acceptance. The entity's experience with binding arrangements for similar goods or services may provide evidence that a good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement. If revenue is recognised before the resource provider accepts the asset, the entity still must consider whether there are any remaining compliance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

AG83. However, if an entity cannot objectively determine that the good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement, then the entity would not be able to conclude that the resource provider has obtained control until the entity receives acceptance by the resource provider. That is because in that circumstance the entity cannot determine that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from the good or service.

AG84. If an entity delivers a product to a purchaser or third-party beneficiary for trial or evaluation purposes and the resource provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the resource provider until either the resource provider accepts the product or the trial period lapses.

Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs 98–104)

AG85. Methods that can be used to measure an entity's progress towards complete satisfaction of a compliance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG87–AG91); and

(b) Input methods (see paragraphs AG92–AG95).

Output Methods

AG86. Output methods recognise revenue on the basis of direct measurements of the value to the entity receiving the outputs from the compliance obligations satisfied to date relative to the remaining compliance obligations under the binding arrangement. Output methods include methods such as specified activities performed to date, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.

AG87. A specified activity is a particular action, stated in a binding arrangement, that the entity must perform and for which the resource provider can compel the entity to perform, such as construct a hospital or conduct a form of research. As a detailed example, a resource provider provides funding to a government science agency (resource recipient) to conduct research and development into a plant-based meat substitute. Any intellectual property developed by the government science agency remains the property of that agency. The funding is provided on the basis of a detailed project plan (with the individual stages of research and development

identified) provided by the government science agency and the resource provider requires the government science agency to report back at each stage. Each of these stages constitutes a specified activity and revenue would be recognised when (or as) they are completed and for the amount incurred in completing that specified action. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to deliver the specified activity, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG88. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the compliance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the promises to use resources in the specified manner. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a compliance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the resource provider that are not included in the measurement of the output.

AG89. As a practical expedient for compliance obligations where the entity is required to transfer a distinct good or service to an external party, if an entity has a right to consideration from a resource provider in an amount that corresponds directly with the value to the resource provider of the entity's compliance obligations completed to date (for example, a binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice.

AG90. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary.

Input Methods

AG91. Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labour hours expended, eligible expenditures incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that compliance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

AG92. An eligible expenditure is a transfer of resources incurred in accordance with the requirements set out in a binding arrangement. A binding arrangement may require an entity to use resources for a particular purpose, such as to further the entity's objectives, and incur eligible expenditure for that purpose, but does not have an identifiable specified activity. For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to incur the eligible expenditure, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG93. The resource provider needs to be able to confirm that the entity's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the entity needs to keep appropriate

documentation to show that the inputs, such as any eligible expenditures, were incurred by the entity and directly related to the entity's satisfaction of the promises in the specified manner.

AG94. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the satisfaction of its compliance obligation. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 98, do not depict the entity's performance in satisfying its compliance obligations. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

(a) When a cost incurred does not contribute to an entity's progress in satisfying the compliance obligation. For example, an entity would not recognise revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the transaction consideration of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labour or other resources that were incurred to satisfy the compliance obligation).

(b) When a cost incurred is not proportionate to the entity's progress in satisfying the compliance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognise revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognise revenue at an amount equal to the cost of a good used to satisfy a compliance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:

(ii) The good is not distinct;

(iii) The party receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good;

(iv) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the compliance obligation; and

(v) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG117–AG125).

Right of Return for a Transfer of Goods or Services to Another Party (paragraph 118)

AG95. In some binding arrangements, an entity transfers control of a product to a resource provider and also grants the resource provider the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

(a) A full or partial refund of any consideration paid;

(b) A credit that can be applied against amounts owed, or that will be owed, to the entity; and

(c) Another product in exchange.

AG96. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:

(a) Revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);

(b) A refund liability; and

(c) An asset (and corresponding adjustment to cost of sales) for its right to recover products from resource providers on settling the refund liability.

AG97. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a compliance obligation in addition to the obligation to provide a refund.

AG98. An entity shall apply the requirements in paragraphs 109–122 (including the requirements for constraining measurement in paragraphs 119–121) to determine the amount of consideration to which the entity expects to be entitled. In transactions where the binding arrangement requires an entity to transfer distinct goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary), this amount would exclude the products expected to be returned. For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognise revenue but shall recognise those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled for satisfying its compliance obligations in the binding arrangement and make a corresponding change to the transaction consideration and, therefore, in the amount of revenue recognised.

AG99. An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognise corresponding adjustments as revenue (or reductions of revenue).

AG100. An asset recognised for an entity's right to recover products from a resource provider on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability.

AG101. Exchanges by resource providers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying this Standard.

AG102. Binding arrangements in which a resource provider may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG111–AG116.

Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraph 111(e))

AG103. Consideration payable to a resource provider includes cash amounts that an entity pays, or expects to pay, to the resource provider (or to other parties that purchase the entity's goods or services from the resource provider). Consideration payable to a resource provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the resource provider). An entity shall account for consideration payable to a resource provider as a reduction of the transaction consideration and, therefore, of revenue unless the payment to the resource provider is in exchange for a distinct good or service (as described in paragraphs 73–77) that the resource provider transfers to the entity. If the consideration payable to a resource provider includes a variable amount, an entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 113–121.

AG104. If consideration payable to a resource provider is a payment for a distinct good or service from the resource provider, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the resource provider exceeds the current fair value of the distinct good or service that the entity receives from the resource provider, then the entity shall account for such an excess as a reduction of the transaction consideration. If the entity cannot reasonably estimate the current fair value of the good or service received from the resource provider, it shall account for all of the consideration payable to the resource provider as a reduction of the transaction consideration.

AG105. Accordingly, if consideration payable to a resource provider is accounted for as a reduction of the transaction consideration, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:

(a) The entity recognises revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and

(b) The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary practices.

Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraph 134)

AG106. A resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone values of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with paragraph AG108 that the entire discount relates to only one or more, but not all, compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction consideration to each compliance obligation on the basis of the relative stand-alone values of the underlying distinct goods or services.

AG107. An entity shall allocate a discount entirely to one or more, but not all, compliance obligations in the binding arrangement if all of the following criteria are met:

(a) The entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;

(b) The entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone values of the goods or services in each bundle; and

(c) The discount attributable to each bundle of goods or services described in paragraph AG108(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the compliance obligation (or compliance obligations) to which the entire discount in the binding arrangement belongs.

AG108. If a discount is allocated entirely to one or more compliance obligations in the binding arrangement in accordance with paragraph AG108, an entity shall allocate the discount before using the residual approach to estimate the stand-alone value of a good or service in accordance with paragraph 139(c).

Determination of the Stand-Alone Value (paragraphs 137–140)

AG109. ~~In the public sector,~~ The determination of a stand-alone value for a compliance obligation in accordance with paragraph 137 may be challenging, particularly in situations where an entity (being the resource recipient) is

providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone value is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone value using the expected cost approach, as noted in paragraph 139(b).

Warranties for Goods or Services Transferred to Another Party

AG110. In binding arrangements where the entity provides distinct goods or services to another party, it is common for an entity to provide (in accordance with the binding arrangement, the law or the entity's customary practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a resource provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the resource provider with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG111. If a resource provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the purchaser or third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a compliance obligation in accordance with paragraphs 68–77 and allocate a portion of the transaction consideration to that compliance obligation in accordance with paragraphs 133–143.

AG112. If a resource provider does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets unless the promised warranty, or a part of the promised warranty, provides the purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG113. In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

AG114. Whether the warranty is required by law – if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a compliance obligation because such requirements typically exist to protect resource providers from the risk of purchasing defective products.

(a) The length of the warranty coverage period – the longer the coverage period, the more likely it is that the promised warranty is a compliance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

(b) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a compliance obligation.

AG115. If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a compliance obligation. Therefore, an entity shall allocate the transaction consideration to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot

reasonably account for them separately, the entity shall account for both of the warranties together as a single compliance obligation.

AG116. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a compliance obligation. For example, a manufacturer such as a government medical laboratory might sell products such as diagnostic ultrasound scanners to both government-owned and privately-owned medical centres and hospitals in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a purchaser or third-party beneficiary using a product for its intended purpose. Similarly, an entity's promise to indemnify the resource provider for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a compliance obligation. The entity shall account for such obligations in accordance with PBE IPSAS 19.

Principal versus Agent Considerations

AG117. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a compliance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser or third-party beneficiary. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see paragraphs 73–77 and AG53–AG56). If a binding arrangement with a resource provider includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

AG118. To determine the nature of its promise (as described in paragraph AG117), the entity shall:

(a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see paragraph AG51)); and

(b) Assess whether it controls (as described in paragraph 90) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG119. An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. An entity that is a principal may satisfy its compliance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the compliance obligation on its behalf.

AG120. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

(a) A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary.

(b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.

(c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For example, if an entity

provides a significant service of integrating goods or services (see paragraph 76(a)) provided by another party into the specified good or service for which the resource provider has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

AG121. When (or as) an entity that is a principal satisfies a compliance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG122. An entity is an agent if the entity's compliance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a compliance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

AG123. Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph AG119)) include, but are not limited to, the following:

(a) The entity is primarily responsible for satisfying the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting resource provider specifications). If the entity is primarily responsible for satisfying the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

(b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the resource provider (for example, if the resource provider has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a resource provider, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.

(c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the resource provider pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

AG124. The indicators in paragraph AG123 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.

AG125. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance obligation to transfer the specified good or service to the purchaser or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognise revenue for that compliance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Resource Provider Options for Additional Goods or Services

AG126. Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

AG127. If, in a binding arrangement, an entity grants a resource provider the option to acquire additional goods or services, that option gives rise to a compliance obligation in the binding arrangement only if the option provides a material right to the resource provider that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of resource provider in that geographical area or market). If the option provides a material right to the resource provider, the resource provider in effect pays the entity in advance for future goods or services and the entity recognises revenue when those future goods or services are transferred or when the option expires.

AG128. If a resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone value for that good or service, that option does not provide the resource provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the resource provider exercises the option to purchase the additional goods or services.

AG129. Paragraph 134 requires an entity to allocate the transaction consideration to compliance obligations on a relative stand-alone value basis. If the stand-alone value for a resource provider's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the resource provider would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the resource provider could receive without exercising the option; and

(b) The likelihood that the option will be exercised.

AG130. If a resource provider has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone value of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Resource Providers' Unexercised Rights

AG131. In accordance with paragraph 163, upon receipt of a prepayment from a resource provider, an entity shall recognise a binding arrangement liability in the amount of the prepayment for its compliance obligation. An entity shall derecognise its binding arrangement liability (and recognise revenue) when it satisfies the compliance obligation associated with the consideration previously received from the resource provider.

AG132. A resource provider's non-refundable prepayment to an entity gives the resource provider a right to have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG133. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the resource provider. If an entity does not expect to be entitled to a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the resource provider exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs 119–121 on constraining estimates of variable consideration.

AG134. An entity shall recognise a liability (and not revenue) for any consideration received that is attributable to a resource provider's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

AG135. In some binding arrangements, an entity charges a resource provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a healthcare membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG136. To identify compliance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement to satisfy the binding arrangement, that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see paragraph 72). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognised as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the resource provider the option to renew the binding arrangement and that option provides the resource provider with a material right as described in paragraph AG127.

AG137. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate compliance obligation in accordance with paragraphs 68–77.

AG138. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 72). If those setup activities do not satisfy a compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG95. That is because the costs of setup activities do not depict the transfer of services to a purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognised in accordance with paragraph 152.

Application of Principles to Specific Transactions

AG139. Public benefit entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph AG143, an entity shall recognise an asset in respect of transfer revenue

when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Capital Transfers

AG140. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes at least one compliance obligation on the entity.

AG141. An entity shall recognise revenue as it satisfies its compliance obligations in its capital transfer transaction by applying paragraphs 87–104. An entity shall separately determine whether any inflow of resources from a capital transfer is to be recognised as an asset by applying paragraph 80, and whether its compliance obligation is to be recognised as a liability by applying paragraphs 81–86. The carrying amount of any such liability is reduced as revenue is recognised.

AG142. Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once acquired or constructed. Any compliance obligations related to the operation of the asset would be accounted for in accordance with the requirements of this Standard.

Services In-Kind

AG143. An entity may, but is not required to, recognise services in-kind as revenue and as an asset.

AG144. Although recognition of services in-kind is not required by this Standard, entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations.

AG145. Services in-kind are services provided by individuals to public benefit entities for no consideration. Some services in-kind meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognised to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognise an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognise an expense for the consumption of services in-kind. However, services in-kind may also be utilised to construct an asset, in which case the amount recognised in respect of services in-kind is included in the cost of the asset being constructed.

AG146. Public benefit entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

(a) Technical assistance from governments or international organisations;

(b) Persons convicted of offenses may be required to perform community service for a public benefit entity;

(c) Hospitals may receive the services of volunteers;

(d) Schools may receive voluntary services from parents as teachers' aides or as board members;

(e) ~~Local governments~~ A fire station may receive the services of volunteer fire fighters; and

(f) Not-for-profit entities may receive voluntary services from members (for example, IT services, administration services or accounting services) to enable the entity to carry out its activities.

Commented [LV9]: Note to Board Members (Q7)
IPSAS 23 contains an equivalent list of examples in paragraph 100. This not-for-profit example was added in PBE IPSAS 23. As it remains relevant and provides a not-for-profit context, it was included in the draft ED PBE IPSAS 47.

Question 7 to Board members

Refer to paragraphs 7(d) in agenda item 7.2.

Does the Board agree with adding the Not-for-Profit example in sub-paragraph (f) to Application Guidance paragraph AG145?

AG147. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph AG146, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

AG148. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 175, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public benefit entities, the services provided by volunteers are not material in amount, but may be material by nature.

AG149. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives may be more likely to recognise those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognise a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

AG150. Pledges are unenforceable promises to transfer assets to the entity in the future. Pledges do not meet the definition of an asset, because the entity is unable to control the access of the resource provider to the future economic benefits or service potential embodied in the item pledged. Entities do not recognise pledged items as assets or revenue. If the pledged item is subsequently transferred to the entity, it is recognised as a gift or donation, in accordance with paragraphs AG164–AG167. Pledges may warrant disclosure as contingent assets under the requirements of PBE IPSAS 19.

Advance Receipts of Transfers

AG151. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognised as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognise an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts. This liability (advance receipt) may be recognised as a liability (deferred revenue), in accordance with paragraphs 81–86, when the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

Concessionary Loans

AG152. Concessionary loans are loans received by an entity at below-market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with PBE IPSAS 41. An entity considers whether any difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition (see PBE IPSAS 41) is revenue that should be accounted for in accordance with this Standard.

AG153. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognises the difference as revenue, except if a compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the entity result in a compliance obligation. Where a compliance obligation exists, the entity considers if it gives rise to the existence and recognition of a liability. As the entity satisfies the compliance obligation, the liability is reduced and an equal amount of revenue is recognised.

Measurement of Transferred Assets

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity receives consideration in a form other than cash, the non-cash consideration is initially measured ~~at its current value~~ in accordance with relevant PBE Standards;

(a) Assets such as property, plant and equipment, inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date;

(b) [Not used]; ~~Property, plant, and equipment assets acquired through revenue transactions are to be measured at their deemed cost as at the acquisition date. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost (where such assets held for their operational capacity are measured at current operational value, and assets held for their financial capacity are measured at fair value); and~~

(c) Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument are to be measured at their transaction consideration as at the acquisition date in accordance with paragraph 109 and the appropriate accounting policy.

Question 8 to Board members

Refer to paragraphs 37 in agenda item 7.2.

Does the Board agree with the adjustments in Application Guidance paragraph AG153?

Commented [LV10]: Note to Board Members (Q8)
This paragraph with its sub-paragraphs has been amended to reflect the measurement requirements of non-cash considerations per current PBE Standards. In terms of sub-paragraph (b) IPSAS 45 refers to 'deemed cost' in the context of initial measurement of a PP&E asset received in a non-exchange transaction, however, PBE IPSAS 17 does not refer to deemed cost in this way. Rather, PBE IPSAS 17 says that PP&E assets received in a non-exchange transaction are initially measured at fair value. As a result, we've included PP&E with sub-paragraph (a).

Debt Forgiveness and Assumptions of Liabilities

AG155. Lenders will sometimes waive their right to collect a debt owed by a public benefit entity, effectively cancelling the debt. For example, a central government may cancel a loan owed by a local government. In circumstances when a creditor forgives a liability, the local government decreases the carrying amount of the existing liability and recognises an increase in net assets.

AG156. Entities recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

AG157. Where a controlling entity forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs AG7–AG9.

AG158. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG159. Fines are economic benefits or service potential received or receivable by an~~public sector~~ entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws and/or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognised as a fine.

AG160. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognised as a liability. As such, fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 18. As noted in paragraph 5, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

AG161. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws and/or regulations of the jurisdiction.

AG162. Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the transaction consideration of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

AG163. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG166. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction consideration of the asset bequeathed to the

entity, and this amount may be available to the entity. Bequests are measured at the transaction consideration of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG164. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements. The resource provider may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. The making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits or service potential flowing to the entity.

AG165. Goods in-kind are tangible assets transferred to an entity in a transaction that do not require a transfer of distinct goods or services to an external party but may be subject to certain obligations. External assistance provided by multilateral or bilateral development organisations often includes a component of goods in-kind.

AG166. Recognition of gifts or donations of services in-kind are addressed in paragraphs AG143–AG149. Gifts and donations other than services in-kind and goods in-kind are recognised as assets in accordance with paragraphs 18–25, and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.

AG166.1 An entity may elect not to recognise goods in-kind that meet the definition of inventories in PBE IPSAS 12 *Inventories*, if it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of recognising the goods at the date of acquisition outweigh the benefits. This will often be the case for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution. In the case where goods in-kind are sold, the entity recognises revenue when they are sold. In the case where such goods in-kind are distributed free of charge, the entity does not recognise revenue.

Commented [LV11]: Note to Board Members (Q9)
PBE IPSAS 23 (para 97.1), has a NZ-specific exemption that allows PBEs not to recognise inventory received in-kind on the date of acquisition (and therefore not to recognise revenue on the date of acquisition), if it's not practicable to determine fair value because the costs of doing so would outweigh the benefits. This was a change we made to PBE IPSAS 23 as a result of hearing concerns from NZ stakeholders.

Question 9 to Board members

Refer to paragraphs 38 in agenda item 7.2.

Does the Board agree with the addition of Application Guidance sub-paragraph AG166.1?

AG167. On initial recognition, gifts and donations (including goods in-kind) are measured at their transaction consideration as at the acquisition date, in accordance with paragraph 30.

Licensing

AG168. A licence establishes a resource provider's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences of any of the following:

(a) Software and technology;

(b) Motion pictures, music and other forms of media and entertainment;

(c) Franchises; and

(d) Patents, trademarks and copyrights.

AG169. In addition to a promise to grant a licence (or licences) to a resource provider, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific

statements (see paragraph 71). As with other types of binding arrangements, when a binding arrangement with a resource provider includes a promise to grant a licence (or licences) in addition to other promised goods or services, an entity applies paragraphs 68–77 to identify each of the compliance obligations in the binding arrangement.

AG170. If the promise to grant a licence is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 73–77, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single compliance obligation. Examples of licences that are not distinct from other goods or services promised in the binding arrangement include the following:

(a) A licence that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) A licence that the purchaser or third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a licence, the purchaser or third-party beneficiary to access content).

AG171. If the licence is not distinct, an entity shall apply paragraphs 87–97 to determine whether the compliance obligation (which includes the promised licence) is a compliance obligation that is satisfied over time or satisfied at a point in time.

AG172. If the promise to grant the licence is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the licence is a separate compliance obligation, an entity shall determine whether the licence transfers to a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the licence to a purchaser or third-party beneficiary is to provide the resource provider with either:

(a) A right to access the entity's intellectual property as it exists throughout the licence period; or

(b) A right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

Determining the Nature of the Entity's Promise

AG173. The nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the resource provider reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the resource provider has rights (see paragraphs AG174–AG175);

(b) The rights granted by the licence directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG173(a); and

(c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph 72).

AG174. Factors that may indicate that a resource provider could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the resource provider related to the intellectual property to which the resource provider has rights may also indicate that the resource provider could reasonably expect that the entity will undertake such activities.

AG175. An entity's activities significantly affect the intellectual property to which the resource provider has rights when either:

(a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

(b) The ability of the resource provider to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

AG176. Accordingly, if the intellectual property to which the resource provider has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchaser or third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

AG177. If the criteria in paragraph AG173 are met, an entity shall account for the promise to grant a licence as a compliance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 95(a)). An entity shall apply paragraphs 98–104 to select an appropriate method to measure its progress towards complete satisfaction of that compliance obligation to provide access.

AG178. If the criteria in paragraph AG173 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the licence is granted to the resource provider. This means that the resource provider can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a compliance obligation satisfied at a point in time. An entity shall apply paragraph 97 to determine the point in time at which the licence transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-party beneficiary is able to use and to derive the economic benefits or service potential from the licence. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognise revenue before that code has been provided (or otherwise made available).

AG179. An entity shall disregard the following factors when determining whether a licence provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

(a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised licence, rather than define whether the entity satisfies its compliance obligation at a point in time or over time.

(b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorised use—a promise to defend a patent right is not a compliance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the resource provider that the licence transferred meets the specifications of the licence promised in the binding arrangement.

Sales-Based or Usage-Based Royalties

AG180. Notwithstanding the requirements in paragraphs 119–121, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

(a) The subsequent sale or usage occurs; and

(b) The compliance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG181. The requirement for a sales-based or usage-based royalty in paragraph AG180 applies when the royalty relates only to a licence of intellectual property or when a licence of intellectual property is the predominant item to which the royalty relates (for example, the licence of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the resource provider would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).

AG182. When the requirement in paragraph AG181 is met, revenue from a sales-based or usage-based royalty shall be recognised wholly in accordance with paragraph AG180. When the requirement in paragraph AG181 is not met, the requirements on variable consideration in paragraphs 113–122 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG183. When evaluating whether an entity transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset.

AG184. A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the resource provider, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

AG185. Repurchase agreements generally come in three forms:

(a) An entity's obligation to repurchase the asset (a forward);

(b) An entity's right to repurchase the asset (a call option); and

(c) An entity's obligation to repurchase the asset at the resource provider's request (a put option).

A Forward or a Call Option

AG186. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a resource provider does not obtain control of the asset because the resource provider is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset even

though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

(a) A lease in accordance with PBE IPSAS 13 *Leases*, if the entity can or must repurchase the asset for an amount that is less than the original price of the asset; or

(b) A financing arrangement in accordance with paragraph AG188 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset.

AG187. When comparing the repurchase price with the original price, an entity shall consider the time value of money.

AG188. If the repurchase agreement is a financing arrangement, the entity shall continue to recognise the asset and also recognise a financial liability for any consideration received from the resource provider. The entity shall recognise the difference between the amount of consideration received from the resource provider and the amount of consideration to be paid to the resource provider as interest and, if applicable, as processing or holding costs (for example, insurance).

AG189. If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

A Put Option

AG190. If an entity has an obligation to repurchase the asset at the resource provider's request (a put option) at a price that is lower than the original price of the asset, the entity shall consider at the inception of the binding arrangement whether the resource provider has a significant economic incentive to exercise that right. The resource provider's exercising of that right results in the resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the resource provider has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with PBE IPSAS 13.

AG191. To determine whether a resource provider has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the resource provider has a significant economic incentive to exercise the put option.

AG192. If the resource provider does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG193. If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG188.

AG194. If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the resource provider does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG195. When comparing the repurchase price with the original price, an entity shall consider the time value of money.

AG196. If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

Commented [LV12]: Note to Board Members
Staff made an adjustment to the wording in paragraph AG186 to address potential confusion with the phrase "when comparing the repurchase price with the price." The equivalent part of IFRS 15 (Para B66(a) and (b)) refers to the repurchase price being compared to the "original selling price,". Since IPSAS 47 paragraphs AG186(a) and (b) refer to the repurchase price being compared to the "original price," we adjusted paragraph AG186 to refer to "when comparing the repurchase price with the *original* price" for clarity and consistency.

Commented [LV13]: Note to Board Members
Refer to note in paragraph AG186 related to "original price" which consistently applies to this change.

Consignment Arrangements

AG197. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchasers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG198. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

(a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a resource provider of the dealer or until a specified period expires;

(b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and

(c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Bill-and-Hold Arrangements

AG199. A bill-and-hold arrangement is a binding arrangement under which an entity bills a resource provider for a product, but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may request an entity to enter into such a binding arrangement because of the resource provider's lack of available space for the product or because of delays in the resource provider's production schedules.

AG200. An entity shall determine when it has satisfied its compliance obligation to transfer a product by evaluating when a resource provider obtains control of that product (see paragraph 97). For some binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a resource provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the resource provider over the resource provider's asset.

AG201. In addition to applying the requirements in paragraph 97, for a resource provider to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) The reason for the bill-and-hold arrangement must be substantive (for example, the resource provider has requested the arrangement);

(b) The product must be identified separately as belonging to the resource provider;

(c) The product currently must be ready for physical transfer to the purchaser or third-party beneficiary; and

(d) The entity cannot have the ability to use the product or to direct it to another resource provider.

AG202. If an entity recognises revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining compliance obligations (for example, for custodial services) in accordance with

paragraphs 68–77 to which the entity shall allocate a portion of the transaction consideration in accordance with paragraphs 133–143.

Disclosure (paragraphs 167–193)

AG203. An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

AG204. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45–47 of PBE IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

Disclosure of Disaggregated Revenue (paragraphs 179–180)

AG205. Paragraph 179 requires an entity to disaggregate revenue from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements. Some entities may need to use more than one type of category to meet the objective in paragraph 179 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG206. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:

(a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraphs AG206(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG207. Examples of categories that might be appropriate include, but are not limited to, the following:

(a) Type of compliance obligation;

(b) Geographical region (for example, country or region);

(c) Market or type of purchaser resource provider (for example, government and non-government resource providers);

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements);

(f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time);

(g) Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and

(h) Revenue earned from the provision of goods or services to third-party beneficiaries.

Appendix B

Amendments to Other PBE Standards

Commented [LV14]: Note to Board Members
Various changes have been made to the consequential amendment in PBE IPSAS 47. Refer to agenda item 7.2 where this is covered in more detail.

An entity shall apply the amendments in this appendix when it applies PBE IPSAS 47.

The amendments to other standards in this appendix are based on the text of those other standards, including any amendments to those standards approved when PBE IPSAS 47 was issued in [Date].

Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 50, 88 and 94 are amended, and paragraph 154.24 is added. New text is underlined and deleted text is struck through.

…

Overall Considerations

…

Offsetting

50. ~~PBE IPSAS 9, *Revenue from Exchange Transactions*,~~ PBE IPSAS 47 *Revenue*, ~~defines revenue and~~ requires ~~it~~ revenue to be measured at the ~~fair value of consideration received or receivable, taking into account the~~ amount of consideration to which the entity expects to be entitled in the transaction. The amount of revenue recognised reflects any trade discounts and volume rebates allowed by the entity. ~~An entity undertakes, i~~In the course of its ~~ordinary~~ activities, an entity undertakes other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

    (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the ~~proceeds~~ amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

    (b) …

…

Structure and Content

…

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

    …

    (g) ~~Recoverables from non-exchange transactions (taxes and transfers);~~ [Deleted by IPSASB]

    (h) Receivables ~~from exchange transactions~~;

    …

    (k) Payables ~~under exchange transactions~~;

…

…

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

…

94. The detail provided in subclassifications depends on the requirements of PBE Standards and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example.

…

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other ~~non-exchange~~ revenue transactions, receivables from related parties, prepayment, and other amounts;

…

Commencement and application

…

154.24. PBE IPSAS 47 *Revenue* issued in [Date], amended paragraphs 50, 88 and 94. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 1.

Illustrative Financial Statement Structure

…

A. Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

…

Public Sector Entity—Statement of Comprehensive Revenue and Expenses for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	**20X1**
Revenue		
Taxes	X	X
~~Fees, fines, penalties, and licenses~~Other compulsory contributions and levies	X	X
~~Revenue from exchange transactions~~	~~X~~	~~X~~
Transfers ~~from other government entities~~ without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X

	20X2	20X1
Total revenue	X	X
…	…	…

…

Public Sector Entity—Statement of Comprehensive Revenue and Expenses for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
~~Fees, fines, penalties, and licenses~~Other compulsory contributions and levies	X	X
~~Revenue from exchange transactions~~	~~X~~	~~X~~
Transfers ~~from other government entities~~ without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total ~~R~~revenue	X	X
…	…	…

…

B. Not-for-Profit Entity—Statement of Accounting Policies (Extract)

Reporting Entity

…

Not-for-Profit Entity—Statement of Comprehensive Revenue and Expenses for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
Revenue		
Revenue from compliance obligations in a binding arrangement		
Category 1 (e.g. Fees and other revenue from members)	X	X
Category 2 (e.g. Revenue from providing goods or services)	X	X
Transfers without binding arrangement		
Category 3 (e.g. Bequests and Donations)	X	X
Category 4 (e.g. Grants received)	X	X
Other revenue without binding arrangements	X	X
Interest, dividends and other investment revenue	X	X
Total revenue	X	X
…	…	…

Commented [LV15]: Note to Board Members (Q10)
PBE IPSAS 1 Implementation Guidance includes illustrative financial statement structures for both public sector and not-for-profit sectors. However, IPSAS 47 only provides an illustrative statement of comprehensive revenue and expenses for a public sector entity. To address this gap, we have added an illustrative Statement of Comprehensive Revenue and Expenses for a not-for-profit entity as part of the PBE IPSAS 47 Amendments to PBE IPSAS 1.

…

Not-for-Profit—Statement of Comprehensive Revenue and Expenses for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2		20X1
Revenue			
Revenue from compliance obligations in a binding arrangement			
Category 1 (e.g. Fees and other revenue from members)	X		X
Category 2 (e.g. Revenue from providing goods or services)	X		X
Transfers without binding arrangement			
Category 3 (e.g. Bequests and Donations)	X		X
Category 4 (e.g. Grants received)	X		X
Other revenue without binding arrangements	X		X
Interest, dividends and other investment revenue	X		X
Total revenue	X		X
…	…		…

Question 10 to Board members

Refer to paragraphs 7(e) in agenda item 7.2.

Does the Board agree with the inclusion and the level of detail of the not-for-profit illustrative Statement of Comprehensive Revenue and Expenses in the consequential amendments to PBE IPSAS 1?

Amendments to PBE IPSAS 2 *Cash Flow Statements*

Paragraphs 21 and 22 are amended, and paragraph 63.5 is added. New text is underlined and deleted text is struck through.

…

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded, for example, by:

    (a) ~~By way of non-exchange transactions~~Taxes (directly and indirectly); ~~or~~

    (b) ~~From the recipients of goods and services provided by the entity;~~ [deleted]

    (c) Other compulsory contributions and levies;

    (d) Transfers; or

    (e) Provision of goods or services to another entity in a binding arrangement.

    …

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

….

(c) Cash receipts from grants, ~~or~~ transfers and other appropriations or other budget authority made by central government or other public sector entities;

…

Commencement and application

…

63.5 IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 21 and 22. An entity shall apply these amendments when it applies PBE IPSAS 48.

…

Illustrative Examples

…

Notes to the Cash Flow Statement

…

(b) *Property, Plant, and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital ~~grants~~ transfer by the central government. Cash payments of X were made to purchase property, plant, and equipment.

…

Indirect Method Cash Flow Statement (paragraph 27(b))

…

(b) *Property, Plant, and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital ~~grants~~ transfer by the central government. Cash payments of X were made to purchase property, plant, and equipment.

Amendments to PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Paragraph 11 is amended, and paragraph 72.7 is added. New text is underlined and deleted text is struck through.

…

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) The currency:

(i) That revenue is raised from, such as taxes, donations, bequests, grants, transfers, and fines;

…

…

Commencement and application

…

72.7. PBE IPSAS 47, issued in [Date], amended paragraph 11. An entity shall apply this amendment when it applies PBE IPSAS 47

…

Illustrative Examples

…

Example 2—Multiple Receipts for Revenue Recognised at a Single Point in Time

…

IE7. Applying ~~paragraph 28 of PBE IPSAS 9, *Revenue from Exchange Transactions*,~~ PBE IPSAS 47 *Revenue*, Entity B recognises revenue on September 1, 20X2, the date on which it transfers the goods to the customer, thereby satisfying its compliance obligation in the contract.

…

Amendments to PBE IPSAS 5 *Borrowing Costs*

Paragraph 26 is amended, and paragraph 43.6 is added. New text is underlined and deleted text is struck through.

…

26. Only those borrowing costs applicable to the borrowings of the entity may be capitalised. When a controlling entity borrows funds that are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalise only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest free capital contribution or capital ~~grant~~ transfer, it will not incur any borrowing costs, and consequently will not capitalise any such costs.

…

Commencement and application

…

43.6. PBE IPSAS Revenue, issued in [Date], amended paragraph 26. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 12 *Inventories*

Paragraphs 2, 9, 11, 39, and 48 are amended, paragraph 52.7 is added, and paragraph 28 (and the preceding heading) is deleted. New text is underlined and deleted text is struck through.

…

Scope

…

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:**

   ~~(a) Work-in-progress arising under construction contracts, including directly related service contracts (see PBE IPSAS 11, *Construction Contracts*);~~ [Deleted]

   …

…

Definitions

…

9. **The following terms are used in this Standard with the meanings specified:**

   …

   Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

   …

   Non-exchange transactions are transactions that are not exchange transactions, where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

   …

…

Inventories

…

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many ~~public sector~~ entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. ~~In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognised the related revenue. (guidance on recognition of revenue can be found in PBE IPSAS 9, *Revenue from Exchange Transactions*.)~~ Costs incurred to fulfil a binding arrangement

that does not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with PBE IPSAS 47 *Revenue*.

…

~~*Cost of Inventories of a Service Provider*~~

28. ~~To the extent that service providers have inventories (except those referred to in paragraph 2(d)), they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included, but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers.~~ [Deleted by IPSASB]

…

Net Realisable Value

…

39. Inventories are usually written down to net realisable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses, and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular operation or geographical segment. ~~Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.~~

…

Disclosure

…

48. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods. ~~The inventories of a service provider may be described as work in progress.~~

…

Commencement and application

…

52.7. IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 2, 9, 11, 39, and 48, and paragraph 28 was deleted. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 12.

…

PBE IPSAS 47 *Revenue* Amendments

Commented [LV16]: Note to Board Members (Q11)
We have added a consequential amendment paragraph BC6 to PBE IPSAS 12 Basis for Conclusions to explain that the definitions of exchange and non-exchange transactions have been moved from PBE IPSAS 9 to PBE IPSAS 12. This change was necessitated by the supersession of PBE IPSAS 9 by PBE IPSAS 47. Please note, IPSAS 47 included these definitions as consequential amendments to IPSAS 9, but since IPSAS 9 will be superseded, we have deleted those amendments.

BC6. The definitions of exchange and non-exchange transactions have been incorporated into PBE IPSAS 12 (refer to paragraph 9) from PBE IPSAS 9 *Revenue from Exchange Transactions*. This change was necessitated by the supersession of PBE IPSAS 9 by PBE IPSAS 47. The inclusion of these definitions within PBE IPSAS 12 ensures continuity and clarity in the application of these definitions, following the amendments introduced by PBE IPSAS 47.

Question 11 to Board members

Refer to paragraphs 29 in agenda item 7.2.

Does the Board agree with the inclusion of the Basis for Conclusions paragraph BC6, in the consequential amendments to PBE IPSAS 12?

Amendments to PBE IPSAS 13 *Leases*

Appendix B Application Guidance paragraph B8 are amended, and paragraph 86.8 is added. New text is underlined and deleted text is struck through.

…

Commencement and application

…

86.8. PBE IPSAS 47 *Revenue*, issued in [Date], amended Application Guidance paragraph B8. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Appendix B Application Guidance *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

…

Consensus

…

B8. The criteria in ~~paragraph 19 of PBE IPSAS 9~~ PBE IPSAS 47, paragraphs 17 – 29 for transactions without binding arrangements and paragraphs 87 – 88 and 91 – 104 for transactions with binding arrangements, shall be applied to the facts and circumstances of each arrangement in determining when to recognise a fee as income that an entity might receive. Factors such as whether there is continuing involvement in the form of significant future performance obligations necessary to earn the fee, whether there are retained risks, the terms of any guarantee arrangements, and the risk of repayment of the fee, shall be considered. Indicators that individually demonstrate that recognition of the entire fee as income when received, if received at the beginning of the arrangement, is inappropriate include:

…

Question 12 to Board members

Refer to paragraphs 30 in agenda item 7.2.

Does the Board agree with the adjustments to the consequential amendments to PBE IPSAS 13, Appendix B paragraph B8?

Commented [LV17]: Note to Board Members (Q12)
In the consequential amendments of PBE IPSAS 13 we have amended application guidance paragraph B8. IPSAS 47 does not contain a paragraph similar to PBE IPSAS 9 paragraph 19 which relates to stage of completion recognition when rendering services and the outcome of a transaction can be estimated reliably. We have aligned the criteria for recognizing fees as income with the PBE IPSAS 47 binding arrangement and non-binding arrangement recognition paragraphs.

Amendments to PBE IPSAS 16 *Investment Property*

Paragraphs 13, 78, and 81 are amended, and paragraph 102.10 is added. New text is underlined and deleted text is struck through.

…

Classification of Property as Investment Property or Owner-Occupied Property

…

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

…

~~(b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see PBE IPSAS 11, *Construction Contracts*).~~ [Deleted by IPSASB]

…

…

Disposals

…

78. The disposal of an investment property may be achieved by sale or by entering into a finance lease. ~~In determining t~~The date of disposal for the investment property~~, an entity applies the criteria in PBE IPSAS 9 for recognising revenue from the sale of goods and considers the related guidance in the Implementation Guidance to PBE IPSAS 9~~ is the date the recipient obtains control of the investment property in accordance with the requirements in PBE IPSAS 47 *Revenue*. PBE IPSAS 13 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

…

81. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an investment property is ~~recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with PBE IPSAS 9, using the effective interest method~~ determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of PBE IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in PBE IPSAS 47.

…

Commencement and application

…

102.10 IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 13, 78, and 81. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 17 *Property, Plant, and Equipment*

Paragraphs 83A, 84, and 87 are amended, and paragraph 108.14 is added. New text is underlined and deleted text is struck through.

…

Derecognition

…

83A. However, an entity that, in the course of its ~~ordinary~~ activities, routinely ~~sells~~ provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The ~~proceeds~~ amount of consideration from the ~~sale~~ disposal of such assets shall be recognised as revenue in accordance with ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue*.

84. The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). ~~In determining t~~ The date of disposal of an item~~, an entity applies the criteria in PBE IPSAS 9 for recognising revenue from the sale of goods~~ of property, plant, and equipment is the date the recipient obtains control of that item in accordance with the requirements, and any enforceable obligations or compliance obligations are satisfied in PBE IPSAS 47. PBE IPSAS 13 applies to disposal by a sale and leaseback.

…

87. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an item of property, plant, and equipment is ~~recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with PBE IPSAS 9, reflecting the effective yield on the receivable~~ determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of PBE IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in PBE IPSAS 47.

…

Commencement and application

…

108.14. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 83A, 84, and 87. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 13 and 15 are amended, and paragraph 112.12 is added. New text is underlined and deleted text is struck through.

…

Scope

…

Other Exclusions from the Scope of the Standard

…

13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:

    (a) ~~Construction contracts (see PBE IPSAS 11, *Construction Contracts*); and~~ [Deleted]

    (b) … ~~.~~; and

    (c) Revenue from binding arrangements (see PBE IPSAS 47 *Revenue*). However, as PBE IPSAS 47 contains no specific requirements to address binding arrangements that are, or have become, onerous, this Standard applies to such cases.

…

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~PBE IPSAS 47 identifies the circumstances in which revenue ~~from exchange transactions~~ arising from binding arrangements that include compliance obligations to transfer promised goods or services to the purchaser or third-party beneficiary is recognised, and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of ~~PBE IPSAS 9~~ PBE IPSAS 47.

…

Commencement and application

…

112.12. IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 13 and 15. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*

Paragraphs 2 and 8 are amended, and paragraph 83.10 is added. New text is underlined and deleted text is struck through.

…

Scope

…

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except for:

   …

   (b) ~~Assets arising from construction contracts (see PBE IPSAS 11, *Construction Contracts*);~~ Binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement that are recognised in accordance with PBE IPSAS 47 *Revenue*;

…

8. This Standard does not apply to inventories, ~~and assets arising from construction contracts~~ binding arrangement assets, and assets arising from costs to obtain or fulfil a binding arrangement, because existing PBE Standards applicable to these assets contain requirements for recognising and measuring these assets.

…

Commencement and application

…

83.10. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 2 and 8. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 26 *Impairment of Cash-Generating Assets*

Paragraphs 2, 8 and 29 are amended, and paragraph 127.12 is added. New text is underlined and deleted text is struck through.

…

Scope

…

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:

   …

   (b) ~~Assets arising from construction contracts (see PBE IPSAS 11, *Construction Contracts*)~~ Binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement that are recognised in accordance with PBE IPSAS 47 *Revenue*;

   …

…

8. This Standard does not apply to inventories, ~~and cash-generating assets arising from construction contracts~~ binding arrangement assets and assets arising from costs to obtain or fulfil a binding arrangement, because existing standards applicable to these assets contain requirements for recognising and measuring such assets. This Standard does not apply to deferred tax assets, assets related to employee benefits, or deferred

acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts. The impairment of such assets is addressed in the relevant international or national accounting standards. In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs to sell. PBE IPSAS 27 dealing with biological assets related to agricultural activity, and PBE IFRS 5 dealing with non-current assets (or disposal groups) classified as held for sale, contains measurement requirements.

…

29. As an illustration of paragraph 28, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

(a) …

(b) If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates, but previous sensitivity analysis of recoverable amount shows that:

(i) It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (for example, in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly ~~exchange~~ revenues arising from transactions with binding arrangements) to compensate for any increase in market rates); or

(ii) The decrease in recoverable amount is unlikely to result in a material impairment loss.

…

Commencement and application

…

127.12. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 2, 8, and 29. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 28 *Financial Instruments: Presentation*

Paragraphs AG21, AG22, and AG46 are amended, and paragraph 62.8 is added. New text is underlined and deleted text is struck through.

…

Commencement and application

…

62.8. PBE IFRS 47 Revenue, issued in [Date], amended paragraphs AG21, AG22 and AG46. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Application Guidance

…

Scope

…

AG21. It is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from ~~non-exchange~~ revenue transactions are accounted for in accordance with ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ PBE IPSAS 47 *Revenue*. If non-exchange revenue transactions are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG10–AG18 of this Standard. An entity uses the guidance in this Standard and ~~PBE IPSAS 23~~ PBE IPSAS 47 in assessing whether a ~~non-exchange~~ revenue transaction gives rise to a liability or an equity instrument (contribution from owners).

AG22. An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual ~~non-exchange~~ revenue transaction is in substance a liability or an equity instrument.

…

AG46. Except as required by PBE IPSAS 47, a ~~A~~ contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on credit.

…

…

Amendments to PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 5A, 42A, 42H, 42M, and 42N are amended, and paragraph 53.14 is added. New text is underlined and deleted text is struck through.

…

Scope

…

5A. The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of PBE IPSAS 9 and non-exchange transactions within the scope of PBE IPSAS 23~~within the scope of PBE IPSAS 47 *Revenue* which give rise to financial instruments for the purpose of recognising impairment gains or losses in accordance with paragraph 3 of PBE IPSAS 41. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

…

Nature and Extent of Risks Arising from Financial Instruments

…

Quantitative Disclosures

…

Credit Risk

Scope and Objectives

42A. An entity shall apply the disclosure requirements in paragraphs 42F–42N to financial instruments to which the impairment requirements in PBE IPSAS 41 are applied. However:

(a) For receivables that result from ~~exchange~~ revenue transactions that are within the scope of ~~PBE IPSAS 9 and non-exchange transactions within the scope of PBE IPSAS 23~~PBE IPSAS 47 and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognised in accordance with paragraph 87 of PBE IPSAS 41, if those financial assets are modified while more than 30 days past due; and

(b) Paragraph 42K(b) does not apply to lease receivables.

…

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

*42H. To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

…

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

…

(iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of PBE IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~PBE IPSAS 23~~PBE IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of PBE IPSAS 41.

…

…

Credit Risk Exposure

*42M. To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

…

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

…

(iii) Receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of PBE IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~PBE IPSAS 23~~PBE IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of PBE IPSAS 41.

…

*42N. For receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of PBE IPSAS 9 or non-exchange transactions~~ that are within the scope of ~~PBE IPSAS 23~~PBE IPSAS 47 or lease receivables to which an entity applies paragraph 87 of PBE IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of PBE IPSAS 41).

…

Commencement and application

…

53.14. IPSAS 47 *Revenue*, issued in [Date] amended paragraphs 5A, 42A, 42H, 42M, and 42N. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE IPSAS 31 *Intangible Assets*

Paragraphs 6, 26, 113, 115, and AG6 are amended, and paragraph 133.10 is added. New text is underlined and deleted text is struck through.

…

Scope

…

6. If another PBE Standard prescribes the accounting for a specific type of intangible asset, an entity applies that PBE Standard instead of this Standard. For example, this Standard does not apply to:

(a) Intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~PBE IPSAS 11, *Construction Contracts*, and~~ PBE IPSAS 12 *Inventories*);

…

(e) …; ~~and~~

(f) …; and

(g) Assets arising from binding arrangements that are recognised in accordance with PBE IPSAS 47 *Revenue*.

…

Recognition and Measurement

26. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

…

This requirement applies to the cost measured at recognition (the cost incurred in an exchange transaction to acquire or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

…

Retirements and Disposals

…

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). ~~In determining t~~The date of disposal of ~~such an asset, an entity applies the criteria in PBE IPSAS 9, *Revenue from Exchange Transactions* for recognising revenue from the sale of goods~~ an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a compliance obligation in the binding arrangement is satisfied in PBE IPSAS 47. PBE IPSAS 13 applies to disposal by a sale and leaseback.

…

115. The amount of consideration ~~receivable on disposal~~ to be included in the surplus or deficit arising from the derecognition of an intangible asset is ~~recognised initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with PBE IPSAS 9 reflecting the effective yield on the receivable~~ determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of PBE IPSAS 47. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction consideration in PBE IPSAS 47.

…

Commencement and application

…

133.10 PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 6, 26, 113, 115, and AG6. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Application Guidance

…

AG6. PBE IPSAS 31 does not apply to intangible assets held by an entity for sale in the ~~ordinary~~ course of its operations (see ~~PBE IPSAS 11 and~~ PBE IPSAS 12 and PBE IPSAS 47) or leases of intangible assets that fall within the scope of PBE IPSAS 13. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity or that is accounted for in accordance with PBE IPSAS 13. When a website is leased under an operating lease, the lessor applies this Application Guidance. When a website is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.

…

Commented [LV18]: Note to Board Members
This paragraph has been expanded to include the full paragraph as reflected in PBE IPSAS 31.

Amendments to PBE IPSAS 32 *Service Concession Arrangements: Grantor*

Paragraphs 30, AG56, and AG64 are amended, and paragraph 37.7 is added. New text is underlined and deleted text is struck through.

…

Other Revenues (see paragraphs AG55–AG64)

30. The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–26, in accordance with ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~PBE IPSAS 47 *Revenue*.

…

Commencement and application

…

37.7. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 30, AG56, and AG64. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Application Guidance

This Appendix is an integral part of PBE IPSAS 32.

…

Other Revenues (see paragraph 30)

…

AG56. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with ~~PBE IPSAS 9~~PBE IPSAS 47 *Revenue*. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

…

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognised in accordance with ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47.

…

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 32.

…

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarises the accounting for service concession arrangements established by PBE IPSAS 32.

…

WITHIN THE SCOPE OF THE STANDARD
• … • Grantor recognises related liability equal to the value of the SCA asset (~~PBE IPSAS 9,~~ PBE IPSAS 28 PBE IPSAS 30,~~ and~~ PBE IPSAS 41, and PBE IPSAS 47) • …

…

IG4. Shaded text shows arrangements within the scope of PBE IPSAS 32.

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatisation/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by binding arrangement or license)
Residual interest	Grantor				Operator	
Relevant PBE Standard	IPSAS 13	PBE IPSAS 1	This Standard/PBE IPSAS 17/ PBE IPSAS 31/PBE FRS 45		PBE IPSAS 17/PBE IPSAS 31 (derecognition) ~~PBE IPSAS 9~~PBE IPSAS 47 (revenue recognition)	

…

Amendments to PBE IPSAS 35 *Consolidated Financial Statements*

Paragraph AG13 is amended, and paragraph 79.6 is added. New text is underlined and deleted text is struck through.

…

Commencement and application

…

79.6. PBE IPSAS 47 Revenue, issued in [Date], amended paragraph AG13. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Application Guidance

…

Assessing Control

…

Power

…

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

…

(c) Collecting revenue ~~through non-exchange transactions~~;

…

…

Amendments to PBE IPSAS 40 *PBE Combinations*

Paragraph 115 is amended, and paragraph 126.3 is added. New text is underlined and deleted text is struck through.

…

The Acquisition Method of Accounting

…

Subsequent Measurement and Accounting

…

Contingent Liabilities

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in an acquisition at the higher of:

(a) The amount that would be recognised in accordance with PBE IPSAS 19; and

(b) The amount initially recognised less, if appropriate, the cumulative ~~amortisation~~ amount of revenue recognised in accordance with ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~ PBE IPSAS 47.

This requirement does not apply to contracts accounted for in accordance with PBE IPSAS 41 *Financial Instruments*.

…

Commencement and application

…

126.3. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraph 115. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Illustrative Examples

…

Accounting for Amalgamations

…

Eliminating Transactions between the Combining Operations – Transfers

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

…

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had ~~provided~~ entered into a binding arrangement with COB to provide COB with a ~~grant~~ transfer of CU700 to be used in the provision of an agreed number of training courses (i.e., the compliance obligation).

IE164. The ~~grant~~ transfer ~~was subject a condition that the grant would~~must be returned proportionately to the number of training courses not delivered. ~~At the~~ Immediately prior to the amalgamation ~~date~~, COB had delivered half of the agreed number of courses, and recognised a liability of CU350 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47 *Revenue*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognise an asset in respect of the ~~grant~~ transfer, but accounted for the full CU700 as an expense.

…

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33 and AG57 of PBE IPSAS 40

…

IE176. MF would recognise an adjustment for the tax forgiven, and account for the remaining tax receivable in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of PBE IPSAS 40

IE192. …

		COA (CU)	**COB (CU)**
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from ~~exchange transactions~~ compliance obligations in binding arrangements	2,681	25,377

	…	…	…

…

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78, AG85 and AG87 of PBE IPSAS 40

…

IE250. MF would recognise an adjustment for the tax forgiven, and account for the remaining tax receivable in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of PBE IPSAS 40

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE ~~provided~~ entered into a binding arrangement with TE to provide TE ~~with~~ a ~~grant~~ transfer of CU800 to be used in the provision of an agreed number of training courses to the employees of TE (i.e., the compliance obligation).

IE264. The ~~grant~~ transfer was subject to a ~~condition~~ compliance obligation that the ~~grant~~ transfer would be returned proportionately to the number of training courses not delivered. ~~At the~~ Immediately prior to the acquisition ~~date~~, TE had delivered a quarter of the agreed number of courses, and recognised a liability of CU600 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognise an asset in respect of the ~~grant~~ transfer, but accounted for the full CU800 as an expense.

…

Amendments to PBE IPSAS 41 *Financial Instruments*

Paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158 are amended, and paragraph 156.6 is added. New text is underlined and deleted text is struck through.

…

Scope

2. This Standard shall be applied by all entities to all types of financial instruments except:

…

(j) **The initial recognition and initial measurement of rights and obligations arising from ~~non-exchange~~ revenue transactions to which ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47 *Revenue*, applies~~; except as described in~~ (see paragraph AG6).**

…

3. The impairment requirements of this Standard shall be applied to those rights arising from ~~PBE IPSAS 9, Revenue from Exchange Transactions~~PBE IPSAS 47 *Revenue*, ~~and PBE IPSAS 23~~ transactions ~~which give rise to financial instruments~~ for the purposes of recognising impairment gains or losses.

…

Recognition and Derecognition

…

Derecognition of Financial Liabilities

…

37. **The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a non-exchange transaction, an entity applies ~~PBE IPSAS 23~~ PBE IPSAS 47.**

…

Classification

…

Classification of Financial Liabilities

45. An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

    …

    (c) Financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 45(a) or (b) applies) subsequently measure it at the higher of:

        (i) …; and

        (ii) The amount initially recognised (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortisation~~ revenue recognised in accordance with the principles of ~~PBE IPSAS 9~~PBE IPSAS 47.

    (d) Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 45(a) applies) subsequently measure it at the higher of:

        (i) …; and

        (ii) The amount initially recognised (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortisation~~ revenue recognised in accordance with the principles of ~~PBE IPSAS 9~~PBE IPSAS 47.

    …

…

Measurement

Initial Measurement

…

60. Despite the requirement in paragraph 57, at initial recognition, an entity may measure short-term receivables at their transaction consideration (as defined in PBE IPSAS 47) if the short-term receivables do not contain a significant financing component (in accordance with PBE IPSAS 47, or when the entity applies the practical expedient in paragraph 126 of PBE IPSAS 47) and payables at the original invoice amount if the effect of discounting is immaterial. An entity may measure short-term payables at the transaction consideration if the effect of discounting is immaterial.

…

Impairment

…

Simplified Approach for Receivables and Binding Arrangement Assets

87. **Despite paragraphs 75 and 77, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:**

(a) **Receivables or binding arrangement assets that result from exchange transactions that are within the scope of PBE IPSAS 9PBE IPSAS 47 and non-exchange transactions within the scope of PBE IPSAS 23 and that:**

(i) **Do not contain a significant financing component in accordance with PBE IPSAS 47 (or when the entity applies the practical expedient in accordance with paragraph 126 of PBE IPSAS 47);**

(ii) **Contain a significant financing component in accordance with PBE IPSAS 47, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all receivables or binding arrangement assets but may be applied separately to receivables and binding arrangement assets.**

(b) …

…

Commencement and application

…

156.6. PBE IPSAS 47 Revenue, issued in [Date], amended paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Application Guidance

…

Scope

…

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with the relevant international or national accounting standard on accounting and reporting by retirement benefit plans and royalty agreements based on the volume of sales or service revenues that are accounted for under ~~PBE IPSAS 9, *Revenue from Exchange Transactions*~~PBE IPSAS 47 *Revenue*.

…

AG5. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2(e)):

(a) Although a financial guarantee contract meets the definition of an insurance contract in ~~PBE IFRS 4~~ in PBE IFRS 17 (see paragraph 7(e) of PBE IFRS 17) ~~the scope of the relevant international or national accounting standard dealing with insurance contracts~~if the risk transferred is significant, the issuer applies this Standard. Nevertheless, ~~an entity may elect, under certain circumstances, to treat financial guarantee contracts as insurance contracts of financial instruments using IPSAS 28~~ if the issuer has previously applied accounting that is applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts~~ and has used accounting applicable to insurance contracts~~, the issuer may elect to apply either this Standard or PBE IFRS 17 ~~the relevant international or national accounting standard on insurance contracts~~ to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognise a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 26–34 and AG32–AG38 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

(i) …; and

(ii) The amount initially recognised less, when appropriate, the cumulative ~~amortisation~~ amount of revenue recognised in accordance with the principles of ~~PBE IPSAS 9~~PBE IPSAS 47 (see paragraph 45(c)).

…

(c) If a financial guarantee contract was issued in connection with the ~~sale~~ provision of goods, the issuer applies ~~PBE IPSAS 9~~PBE IPSAS 47 in determining when it recognises the revenue from the guarantee and from the ~~sale~~ provision of goods.

AG6. ~~Rights and obligations (assets and liabilities) may arise from non-exchange revenue transactions, for example, an entity may receive cash from a multi-lateral agency to perform certain activities. Where the performance of those activities is subject to conditions, an asset and a liability is recognised simultaneously. Where the asset is a financial asset, it is recognised in accordance with PBE IPSAS 23, and initially measured in accordance with PBE IPSAS 23 and this Standard. A liability that is initially recognised as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in PBE IPSAS 23 .~~ A right from a revenue transaction that meets the definition of an asset is initially recognised and measured in accordance with PBE IPSAS 47. Similarly, an obligation from a revenue transaction that meets the definition of a liability is initially recognised and measured in accordance with PBE IPSAS 47. After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~PBE IPSAS 23~~

Commented [LV19]: Note to Board Members
The wording has been adjusted to align with PBE IPSAS 41.

PBE IPSAS 47 is no longer appropriate, an entity considers whether a financial liability should be recognised in accordance with this Standard. Other liabilities that may arise from ~~non-exchange~~ revenue transactions are recognised and measured in accordance with this Standard if they meet the definition of a financial liability in PBE IPSAS 28.

…

Recognition and Derecognition

…

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitisation schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognised as assets. An entity recognises the revenue arising from such transactions in accordance with ~~the relevant revenue standard (see PBE IPSAS 9and PBE IPSAS 23)~~PBE IPSAS 47. Such transactions may give rise to financial liabilities as defined in PBE IPSAS 28. Examples of such financial liabilities may include, but are not limited to, borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognised when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and 46. The financial liabilities shall be initially recognised in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

Continuing Involvement in Transferred Assets

AG34. The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 27.

All Assets

(a) If a guarantee provided by an entity through a contract to pay for default losses on a transferred asset prevents the transferred asset from being derecognised to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay ('the guarantee amount'). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognised in surplus or deficit ~~on a time proportion basis~~ when (or as) the compliance obligation is satisfied (~~see PBE IPSAS 9~~ in accordance with the principles of PBE IPSAS 47) and the carrying value of the asset is reduced by any loss allowance.

…

…

Derecognition of Financial Liabilities

…

AG43. If a third party assumes an obligation of an entity, and the entity provides either no or only nominal consideration to that third party in return, an entity applies the derecognition requirements of this Standard as well as paragraphs ~~84 to 87~~AG155–AG158 of ~~PBE IPSAS 23~~ PBE IPSAS 47.

AG44. Lenders will sometimes waive their right to collect debt owed by a public benefit entity, for example, a central government may cancel a loan owed by a local government. This waiver of debt would constitute a legal release of the debt owing by the borrower to the lender. Where an entity's obligations have been waived as part of a non-exchange transaction it applies the derecognition requirements of this Standard as well as paragraphs ~~84–87~~ AG155–AG158 of ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Measurement

~~Non-Exchange~~ Revenue Transactions

AG114. The initial recognition and measurement of assets and liabilities resulting from ~~non-exchange~~ revenue transactions is dealt with in ~~PBE IPSAS 23~~ PBE IPSAS 47. Assets resulting from ~~non-exchange~~ revenue transactions can arise out of both contractual and non-contractual arrangements (see PBE IPSAS 28 paragraphs AG20 and AG21). Where these assets arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are:

(a) Initially recognised in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47;

(b) Initially measured:

(i) At ~~fair value~~ the transaction consideration using the principles in ~~PBE IPSAS 23~~ PBE IPSAS 47; and

(ii) Taking account of transaction costs that are directly attributable to the acquisition of the financial asset in accordance with paragraph 57 of this Standard, where the asset is subsequently measured other than at fair value through surplus or deficit.

…

Initial Measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

…

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in PBE IPSAS 28 and paragraphs ~~42–58~~ AG152–AG153 of ~~PBE IPSAS 23~~ PBE IPSAS 47. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG115).

AG125. Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

(a) Where the loan is received by an entity, the difference is accounted for in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47.

…

Illustrative Examples are provided in paragraph ~~IG54 of PBE IPSAS 23~~ IE296–IE299 of PBE IPSAS 47 as well as paragraphs IE153 ~~to~~ –IE161 accompanying this Standard.

…

Equity Instruments Arising from Non-Exchange Transactions

…

AG129. At initial recognition of such transactions, an entity shall analyse the substance of the arrangement and assess whether the intention at the outset is the provision or receipt of resources by way of a non-exchange transaction. To the extent that the transaction, or component of the transaction, is a non-exchange transaction, any assets or revenues arising from the transaction are accounted for in accordance with PBE IPSAS 23 PBE IPSAS 47. The entity providing the resources shall recognise the amount as an expense in surplus or deficit at initial recognition.

…

Valuing Financial Guarantees Issued through a Non-Exchange Transaction

…

AG132. In paragraph 9, "financial guarantee contract" is defined as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument." Under the requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognised at fair value. Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognised less, when appropriate, the cumulative amortisation amount of revenue recognised in accordance with PBE IPSAS 9, *Revenue from Exchange Transactions*PBE IPSAS 47.

AG133. In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity's economic and social objectives. Such purposes include supporting infrastructure projects, supporting corporate entities at times of economic distress, guaranteeing the bond issues of entities in other tiers of governments and the loans of employees to finance motor vehicles that are to be used for performance of their duties as employees. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration does represent a fair value, entities should recognise the financial guarantee at the amount of the consideration. Subsequent measurement should be at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognised, less, when appropriate, the cumulative amortisation amount of revenue recognised in accordance with PBE IPSAS 9PBE IPSAS 47. Where the entity concludes that the consideration is not a fair value, an entity determines the carrying value at initial recognition in the same way as if no consideration had been paid.

…

Amortised Cost Measurement

Effective Interest Method

…

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with ~~PBE IPSAS 9~~PBE IPSAS 47 include:

…

…

Illustrative Examples

…

Concessionary Loans (Paragraphs AG118–~~AG126~~AG127)

Example 20—Receipt of a Concessionary Loan (Interest Concession)

…

IE154. The local authority has received a concessionary loan of CU5 million, which will be repaid at 5 percent below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market-related rate of interest, is recognised in accordance with ~~PBE IPSAS 23~~ PBE IPSAS 47 *Revenue*.

IE155. The journal entries to account for the concessionary loan are as follows:

1. On initial recognition, the entity recognises the following:

Dr		Bank	5,000,000	
	Cr	Loan (refer to Table 2 below)		4,215,450
	Cr	Liability or ~~non-exchange~~ revenue		784,550

Recognition of the receipt of the loan at fair value

~~PBE IPSAS 23~~ PBE IPSAS 47 is considered in recognising either a liability or revenue for the off-market portion of the loan. Paragraph ~~IG54~~IE302 of that Standard provides journal entries for the recognition and measurement of the off-market portion of the loan deemed to be ~~non-exchange~~ revenue.

…

…

Implementation Guidance

…

Section G Concessionary Loans and Non-Exchange Equity Transactions

G.1 Sequencing of "Solely Payments of Principal and Interest" Evaluation for a Concessionary Loan

If an entity issues a concessionary loan (financial asset), when does it assess classification for subsequent measurement purposes?

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a ~~grant~~ transfer, a contribution from owners or a combination thereof, by applying the principles in PBE IPSAS 28 and paragraphs ~~42–58~~AG152–AG153 of ~~PBE IPSAS 23~~ PBE IPSAS 47 *Revenue*. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction ~~price~~ consideration represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG144–AG155. After initial recognition at fair value, an entity subsequently assesses the classification of concessionary loans in accordance with paragraphs 39–44 and measures concessionary loans in accordance with paragraphs 61–65.

…

Amendments to PBE IFRS 17 *Insurance Contracts*

Paragraphs 7 (a) and (c), 8, 132.2C.1, AG6 and AG28. New text is underlined and deleted text is struck through.

Scope

7. An entity shall not apply PBE IFRS 17 to:

   (a) Warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see ~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue* and PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*).

   …

   (c) Contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, contingent lease payments and similar items: see ~~PBE IPSAS 9~~ PBE IPSAS 47, PBE IPSAS 13 *Leases* and PBE IPSAS 31 *Intangible Assets*).

   …

8. Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply ~~PBE IPSAS 9~~ PBE IPSAS 47 instead of PBE IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:

…

Commencement and Application

…

132.2C.1. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 7,8, AG6 and AG28. An entity shall apply these amendments when it applies PBE IPSAS 47.

Application Guidance

Definition of an Insurance Contract (par 13.1) – Payments in Kind

…

AG6. Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either PBE IFRS 17 or ~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue*.

…

Examples of Insurance Contracts

…

Commented [LV20]: Note to Board Members (Q13) Amendments to PBE IFRS 17, PBE IAS 12, PBE FRS 45, PBE FRS 48 and XRB A1, have been added as these form part of the PBE suite of Standards but not IPSAS Standards.

AG28. An entity shall apply other applicable Standards, such as PBE IPSAS 41 and ~~PBE IPSAS 9~~ PBE IPSAS 47, to the contracts described in paragraph AG27.

…

Basis for Conclusion

Boards' Position on Captive Insurers in AASB ED 319/NZASB ED 2022-3

BC279. The Boards considered that the issues surrounding captive insurers are essentially reporting entity issues, that could affect the application of Accounting Standards more generally, rather than being issues of particular relevance to the insurance project. The Boards observed that governments which regard their captive insurer(s) as needing to prepare general purpose financial statements would have to determine whether they have:

(a) insurance contracts and need to apply insurance contract accounting; or

(b) are only service providers, akin to insurance brokers that are intermediaries between policyholders and insurers, that would apply, for example, AASB 15 *Revenue from Contracts with Customers*/~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue*.

The Boards also observed that governments which regard their captive insurer(s) as not needing to prepare general purpose financial statements, might seek to have them prepare a type of segment information, for example, for management purposes.

…

Amendments to PBE IAS 12 *Income Taxes*

Paragraphs 59 is amended, and paragraph 98.17 is added. New text is underlined and deleted text is struck through.

…

Recognition of Current and Deferred Tax

…

Items recognised in Surplus or Deficit

…

59. Most deferred tax liabilities and deferred tax assets arise where revenue or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in surplus or deficit. Examples are when:

(a) Interest, royalty or dividend revenue is received in arrears and is included in accounting profit in accordance with ~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~, ~~PBE IPSAS 23 *Revenue from Non-Exchange Transactions*~~ PBE IPSAS 47 *Revenue* or PBE IPSAS 41, as relevant, but is included in taxable profit (tax loss) on a cash basis; and

…

Commencement and application

…

98.17. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraph 59. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Amendments to PBE FRS 45 *Service Concession Arrangements: Operator*

Paragraphs 11, 12 and 18 are amended, and paragraph 30.3 is added. New text is underlined and deleted text is struck through.

…

Recognition and Measurement of Arrangement Consideration

…

11. **The operator shall recognise and measure revenue in accordance with ~~PBE IPSAS 11 *Construction Contracts* and PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue* for the services it performs. If the operator performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative ~~fair values~~ stand-alone values of the services delivered, in accordance with PBE IPSAS 47 paragraphs 136 – 140. ~~when the amounts are separately identifiable.~~ The nature of the consideration determines its subsequent accounting treatment. The subsequent accounting for consideration received as a financial asset and as an intangible asset is detailed in paragraphs 21–24 below.**

Construction or Upgrade Services

12. **The operator shall account for revenue and costs relating to construction or upgrade services in accordance with ~~PBE IPSAS 11~~ PBE IPSAS 47.**

…

Operation Services

18. **The operator shall account for revenue and costs relating to construction or upgrade services in accordance with ~~PBE IPSAS 9~~ PBE IPSAS 47.**

…

Commencement and application

…

30.3. IPSAS 47 *Revenue*, issued in [Date], amended paragraphs 11, 12 and 18. An entity shall apply these amendments when it applies PBE IPSAS 47.

…

Amendments to PBE FRS 48 *Service Performance Reporting*

Paragraphs 28 is amended and 49.1 is added. New text is underlined and deleted text is struck through.

…

Information to be Reported

…

Performance Measures and/or Descriptions

…

28. In reporting on the cost of goods and services there are some important considerations. Financial statements and service performance information are both important components of a public benefit entity's general purpose financial report. The service performance information needs to be linked to the financial statements to convey a coherent picture about the performance of an entity. This link is generally made, where practicable and appropriate, by reporting on the cost of goods and services. An entity reporting on the cost of goods and services shall provide a reconciliation between the expenses in the financial statements and the total goods and services costs reported in the service performance information and, where appropriate, an acknowledgement of the use of donated goods or services which have not been recognised in the financial statements (~~PBE IPSAS 23 Revenue from Non-Exchange Transactions~~ PBE IPSAS 47 Revenue establishes requirements for the recognition of donated goods and services in the financial statements). In some cases, for example where an entity relies heavily on donated goods and services, information on how donated resources have contributed to the entity's service performance may be more useful than cost information in providing an overall picture of the entity's performance.

…

Commencement and application

…

49.1. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraph 28. An entity shall apply this amendment when it applies PBE IPSAS 47.

…

Amendments to XRB A1 *Application of the Accounting Standards Framework*

The accounting standards table in Appendix C is amended. New text is underlined.

APPENDIX C

Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements to be applied by public benefit entities

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the accounting standards and authoritative notices that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs

Accounting Standards

…

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 47 *Revenue*

PBE IFRS 4 *Insurance Contracts* (superseded on adoption of PBE IFRS 17 for not-for-profit entities)

…

Question 13 to Board members

Refer to paragraphs 31 in agenda item 7.2.

Does the Board agree with the inclusion of the consequential amendments to PBE IFRS 17, PBE IAS 12, PBE FRS 45, PBE FRS 48 and XRB A1?

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 47 Revenue.

[to be drafted for the Board's December 2024 meeting]

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 47.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a "capital transfer"?

It depends. Public benefit entities receive resources through various types of transfer transactions, in the form of cash or another asset, and which may arise with or without a binding arrangement. An entity should consider whether there are any specifications related to the transfer of the physical asset to determine whether it meets the definition of a "capital transfer" in paragraph 4 of this Standard.

A transfer of a physical asset is a "capital transfer" if the entity received this transfer within a binding arrangement and is required by the binding arrangement to use that physical asset to acquire or construct another non-financial asset that will be controlled by the entity. A transfer of a physical asset which only has a requirement to be used or operated in a specific manner would not meet the definition of a "capital transfer"; rather, such a transfer of a physical asset would constitute a "transfer" as defined in paragraph 4. An entity should clearly consider the specific terms within the binding arrangement.

Section B: Identifying the Revenue Transaction

B.1 Identify Whether a Binding Arrangement Exists

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

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

It is important to correctly identify whether the revenue transaction arises from a binding arrangement. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its revenue transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 11–16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation,

which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

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

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Implicit or explicit consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Revenue Subject to Appropriations

How should an entity consider the impact of appropriations on its revenue transactions?

An appropriation is ~~defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as~~ an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure ~~allocate funds~~ for purposes specified by the legislature or similar authority. 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 resource 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 its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred are subject to the completion of an appropriation process as an explicit term or condition (either in writing, orally, or implied through customary practices). In such circumstances, the entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the entity to require the resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, prior to the completion of the appropriation process. The limitation (that the resources to be transferred are subject to the completion of the appropriation process) does not have substance when the entity can establish an enforceable

Commented [LV21]: Note to Board Members (Q14)
Implementation Guidance Section B3 have been amended in the draft ED due to the May 2024 Board decisions. The reference to IPSAS 24 have been removed and the appropriations definition updated to reflect the NZ context.

This raised the question whether the appropriation definition should be added to the definition section of PBE IPSAS 47 as it is not defined elsewhere in PBE literature. After discussion with members of the drafting support group, we decided not to include an appropriation definition in PBE IPSAS 47 due to challenges in defining a concept embedded in legislation. Additionally, other standards (PBE IPSAS 11, PBE FRS 48, PBE IPSAS 2, PBE IPSAS 22) mention appropriations without defining them, and introducing a definition would require revisiting these standards, which is not considered value-adding at this time.

right to those resources, before the appropriation process is completed. In such cases, the arrangement is enforceable and may be a binding arrangement.

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

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a resource provider;

(b) The exercise of that authority has occurred. In essence, a decision has been made by the resource 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

(c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority together with the exercise of that authority may be sufficient for an entity to conclude that it has an enforceable right to resources in the arrangement to require the resource provider to transfer the resources or, if the resource provider fails to do so, to impose consequences on the resource provider prior to the completion of the appropriation process. In such a circumstance, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

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

Question 14 to Board members

Refer to paragraphs 39 - 40 in agenda item 7.2.

Does the Board agree not to add a definition of appropriations to the definition section of PBE IPSAS 47?

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

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

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 4. If it meets the definition, the entity accounts for revenue arising from the binding arrangement in accordance with paragraphs 56–147.

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

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

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

Instruments. For example, an entity that completely satisfied its compliance obligation and has an unconditional right to consideration would partially impair and derecognise its receivable asset if it intends to only enforce a portion of its right (and does not expect to reverse this decision), but would fully impair and derecognise the asset if it fully loses the ability to enforce its right due to legislative changes. The respective impairment loss would be recognised in accordance with PBE IPSAS 41.

Section C: Revenue from Transactions without Binding Arrangements

C.1 Recognition of Revenue from Various Types of Taxes

What is the taxable event that triggers the recognition of revenue from various types of taxes levied in a jurisdiction?

An entity recognises revenue from a transaction without binding arrangements when it receives or has the right to receive an inflow of resources that meets the definition of an asset (paragraphs 18–25), and there are no unsatisfied enforceable obligations associated with those resources (paragraph 29).

Resources arising from taxes that are presently controlled by the entity as a result of past events meet the definition of an asset. An entity should assess the taxation law in its own jurisdiction to determine the past event for these transactions (i.e., the taxable event), and consider all relevant facts and circumstances to determine when tax revenue should be recognised. The following table provides a non-exhaustive list of examples of tax revenues, and the likely taxable event (unless otherwise specified in laws and/or regulations):

Revenue Type	Likely Taxable Event
Tax on personal income earned within a jurisdiction.	The earning of assessable income by taxpayers in the current reporting period.
Tax imposed on businesses for the value added from sales of goods or services.	The sale of value-added goods or services (i.e., undertaking of taxable activity) during the reporting period.
Tax imposed on sales of goods or services.	The sale of taxable goods or services during the reporting period.
Duty on imports of specific goods to ensure that domestically produced goods are cheaper in the retail market.	The movement of goods subject to duties across the customs boundary during the reporting period.
Duty on taxable property.	The death of the person owning taxable property.
Tax on assessed property within a jurisdiction.	The passing of the date on which the taxes are levied, or the period for which the tax is levied (if the tax is levied on a periodic basis).

C.2 Measurement of Revenue from Various Types of Taxes

How does an entity measure the amount of revenue it has earned from its tax transactions without binding arrangements?

In many circumstances, the taxation period will not coincide with the entity's reporting period. An entity may also receive estimated tax payments in instalments on a periodic basis before the taxable amount is finalised, which may require additional taxes owed, or a refund to the taxpayer for any excess. An entity shall recognise the inflow of resources (or the right to an inflow of resources) as an asset, and recognise revenue earned in the current reporting period, to the extent that it can be reliably measured. The best estimate is consistent with the most likely amount (see paragraphs 45–50).

To reliably measure the asset and revenue, the entity should consider all relevant data from various sources to arrive at its best estimate. Paragraph 46 describes factors that an entity should take into account in its estimation models. Sources of relevant data and inputs for an entity's estimation model include, but are not limited to: historical data (e.g., collection history and other taxation statistics), observable and other phenomena (e.g., forecasts, economic and banking statistics, instalments), and the use of experts.

Estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognised prospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

C.3 Allocation of the Transaction Consideration

The transaction consideration in binding arrangements should be allocated to different compliance obligations on a relative stand-alone value basis to depict the consideration to which the entity expects to be entitled upon satisfying the compliance obligation. To navigate complexities that may arise when dealing with multiple obligations in transactions without binding arrangements, the same methods for allocating transaction consideration outlined for binding arrangements in paragraphs 133–140 may also be applied.

Commented [LV22]: Note to Board Members
The amendment to the paragraph in the ED is due to Board decisions - Aug 2024.
The Board agreed to add, within IPSAS 47 Implementation Guidance, a reference to the binding arrangement requirements for allocation of the transaction price as a method to proportion and recognise revenue across multiple obligations in transactions without binding arrangements.

Section D: Revenue from Transactions with Binding Arrangements

D.1 Identifying Compliance Obligations in a Binding Arrangement

Binding arrangements can ~~in the public sector~~ vary substantially. Some binding arrangements may require the entity, as the resource recipient, to achieve a specific holistic service objective, while other binding arrangements may impose requirements related to specific goods and services. How does an entity determine the individual compliance obligations in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

A binding arrangement has at least one compliance obligation. A compliance obligation, as defined in paragraph 4, is a unit of account to determine distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of revenue. An entity must use professional judgement as it applies paragraphs 68–77 to determine the individual compliance obligations in its binding arrangement.

An entity should first identify all of the promises in its binding arrangement to use resources in a specified manner. Promises are goods or services promised in a binding arrangement with a resource provider, and may be explicit or implicit in the binding arrangement. A promise may require the entity to use resources internally for a good or service, or to transfer a good or service to an external party or parties (i.e., the purchaser or third-party beneficiary). A thorough assessment is necessary to identify all promises of goods or services in the binding arrangement (paragraphs 71–72).

An entity then considers each identified promise to determine if a promise is itself a compliance obligation, or whether it should be grouped with other promises to be a compliance obligation. In other words, a compliance obligation is a unit of account that represents a distinct promise or distinct group of promises to which recognition criteria and measurement concepts are applied (paragraph 73). A good or service (or a bundle of goods or services) promised in a binding arrangement is distinct if both criteria are met:

(a) The promised good or service (or a bundle of goods or services) is *capable of being distinct*; and

(b) The promise is *distinct within the context of the binding arrangement*.

Whether a good or service is *capable of being distinct* is generally based on the characteristics of the good or service (see paragraph 75 for additional guidance). However, determining whether the promise is *distinct within the context of the binding arrangement* will require judgement to ensure that the grouping of promises, and thus identification of individual compliance obligations, will meaningfully represent the nature of the entity's transaction with the resource provider and provide a useful depiction of the entity's performance (see paragraph 76 for additional guidance).

Any distinct promise, or distinct group of promises, identified by the entity through this analysis would be an individual compliance obligation.

In cases where multiple parties are involved in the arrangement, the entity will also need to consider whether the nature of its promise in a compliance obligation indicates that the entity is a principal or agent (in accordance with paragraphs AG117–AG125).

D.2 Satisfaction of Compliance Obligations: Methods of Measuring Progress

When an entity satisfies a compliance obligation over time, how does it determine a measure of progress that depicts the entity's performance to satisfy its compliance obligation?

Methods of measuring progress include output methods and input methods (see paragraphs AG86–AG95). After the entity identifies its compliance obligations in its binding arrangement, an entity shall consider the nature of the entity's promise and the specific terms of the binding arrangement to determine the appropriate method of measuring progress.

An entity may first consider all observable and available information associated with satisfying the compliance obligation. This information would be useful for all parties in the binding arrangement to confirm whether the terms of the binding arrangement are being met, and may be explicitly required in the binding arrangement. Observable and available information includes, but is not limited to:

(a) The performance of specified activities;

(b) The incurrence of eligible expenditures;

(c) The requirement to track progress towards achieving outlined milestones;

(d) The production or delivery of specific quantities of goods or services; and

(e) The volume of resources consumed (e.g., labour, materials, machine hours, etc.).

Some types of information are output methods (as they are based on the outputs and outcomes from the satisfaction of the compliance obligation), while other types of information are input methods (as they are based on the entity's efforts or inputs into the satisfaction of the compliance obligation).

The entity should use professional judgement to determine what information, and thus method of measuring progress, most faithfully depicts the entity's performance towards complete satisfaction of the compliance obligation. In making this assessment, the entity should also consider which method of measuring progress:

(a) Better reflects the nature and intent of the entity's promise in the binding arrangement;

(b) More clearly captures the relationship with, and communicates the progress toward, the satisfaction of the compliance obligation;

(c) Uses information that is more reliable and directly observable;

(d) Reflects all relevant performance associated with satisfying the compliance obligation; and

(e) Provides benefits that outweigh the costs of obtaining and tracking the necessary information.

There may be situations where resources are passed through a series of entities before being received by the ultimate resource recipient. In these situations, where the entity is one of multiple parties involved in the arrangement, the entity will need to consider whether the nature of its promise and satisfaction of its compliance obligation depends on satisfaction by other parties in the binding arrangement, thereby informing revenue recognition as a principal or agent.

D.3 Satisfaction of Compliance Obligations: Measuring Progress for Capital Transfers

Public benefit entities often receive capital transfers for multi-year capital projects. These projects generally include multiple stages of completion and deliverables. Are different principles required to measure an entity's progress on capital transfers?

No. Capital transfers, which arise from transactions with binding arrangements, typically include substantial detail about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). As such, these binding arrangements typically entail a large range of available information related to the inputs and outputs of the transaction. For example, the binding arrangement may include specific detailed activities related to the construction, such as clearing the site, building foundations and framing, and pouring concrete. However, the application of the accounting principles for capital transfers is consistent with the accounting for other revenue transactions with binding arrangements. The entity must first identify the individual compliance obligations in the binding arrangement, and carefully determine the appropriate measure of progress for each compliance obligation. The entity shall apply the accounting guidance in paragraphs 98–104 and paragraphs AG86–AG95 to consider all observable and available information. The use of professional judgement is crucial in determining what information, and thus method of measuring progress, most faithfully depicts the entity's progress to fully satisfy the compliance obligation. An entity should also consider revenue recognition independently from the timing of the receipt of resources from the resource provider.

D.4 Allocation Based on Stand-Alone Values

An entity is required to allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis. However, stand-alone value is not always directly observable, and must then be estimated. How should a public benefit entity determine the suitable method for estimating the stand-alone value of a good or service?

To estimate stand-alone value, an entity shall first consider all reasonably available information (including, but not limited to, reasonably available data points, entity-specific factors, information about the resource provider or class of resource provider, and the effects of market considerations where relevant).

Based on the reasonably available information, the entity shall determine which method for estimating the stand-alone value most faithfully represents the value of the goods or services promised in the binding arrangement. Paragraph 139 includes examples of suitable methods for estimating the stand-alone value and is not a prescriptive list.

The most suitable method will depend on the quality and type of information available to the entity. For example, the adjusted market assessment approach may be more suitable when the binding arrangement promises goods or services that are readily available in the market, as the price that other entities in the market would be willing to pay may provide a proxy for the value of those goods or services in the binding arrangement. However, the expected cost approach may be more suitable when the binding arrangement promises goods or services that are unique to the entity or the binding arrangement, or which are not readily available in the

market. In such cases, the entity's expected costs of satisfying a compliance obligation may provide a more useful estimation of the value of the goods or services in the binding arrangement.

The entity shall be comprehensive in its assessment to maximise the use of observable inputs and be consistent in its application of estimation methods to similar circumstances.

Paragraph 139 also notes that the entity may incorporate a margin in its estimation approach, if appropriate. This may occur if the public benefit entity has engaged in a revenue transaction that is exchange-type in nature.

Section E: Multi-Year Arrangements

E.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognise revenue from, multi-year arrangements?

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

While these arrangements are longer term, the application of accounting principles is consistent with the accounting for other revenue transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in the applicable accounting model to reflect the substance of the transaction. The entity shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset in accordance with paragraphs 18–25, and carefully consider revenue recognition independently from the timing of funding when applying paragraph 29 (if without a binding arrangement) or paragraphs 87-104 (if with a binding arrangement). The entity may need to consider whether any expected inflow of resources in subsequent years meets the definition of an asset, and whether it is interdependent and inseparable from any associated unsatisfied obligations in accordance with paragraph AG57.

Section F: Subsequent Measurement

F.1 Subsequent Measurement for Non-Contractual Receivables

How should an entity subsequently account for receivables from revenue transactions arising outside of contracts?

An entity may recognise a contractual receivable (i.e., a receivable asset that arises from a contract) or a non-contractual receivable. A non-contractual receivable is a receivable asset that does not arise from a contract, such as a binding arrangement that is not a contract or a revenue transaction that is not a binding arrangement (e.g., taxes and other statutory receivables).

After initial recognition, a contractual receivable, which meets the definition of a financial asset per PBE IPSAS 28 *Financial Instruments: Presentation*, is subsequently measured by applying PBE IPSAS 41.

A non-contractual receivable does not strictly meet the definition of a financial asset because it does not arise from a contract. While non-contractual receivables and contractual receivables arise from different types of arrangements, they are consistent in substance and risk exposure, and non-contractual receivables should be subsequently measured by applying PBE IPSAS 41 by analogy to ensure that transactions with the same substance are accounted for using consistent principles. When applying PBE IPSAS 41 principles by analogy, the entity should use judgement to consider the substance of the receivable, and all relevant and readily available data, to form the basis of the revenue "contract by analogy" for which it has a receivable (e.g.,

legislation, payment terms, etc.). To determine whether its non-contractual receivable meets the criteria in paragraph 40 of PBE IPSAS 41 to be subsequently measured at amortised cost, the entity should consider whether it holds the receivable to collect expected cash flows (in lieu of contractual cash flows) which represent its right to consideration in the transaction. If met, the entity should consider inputs into its impairment analysis under PBE IPSAS 41 accordingly to ensure it appropriately reflects the economic substance of the receivable, including but not limited to the passage of time before the consideration is collectable (i.e., maturity period) and any receivable amounts the entity no longer expects to collect (i.e., expected credit losses). If the criteria in paragraph 40 of PBE IPSAS 41 are not met, the entity would subsequently measure the non-contractual receivable at fair value in accordance with paragraph 31 of this Standard.

Section G: New Zealand Not-for-Profit Guidance

This guidance accompanies, but is not part of, PBE IPSAS 47.

G1. This Appendix provides New Zealand implementation guidance for not-for-profit entities with the following types of transactions:

(a) Bequests.

(b) Cash donations and fundraising.

(c) Goods and services in-kind.

(d) Uncompleted obligation

Question 15 to Board members

Refer to paragraphs 7(f) in agenda item 7.2.

Does the Board agree with the inclusion of the PBE IPSAS 23 NZ Not-for-Profit guidance in PBE IPSAS 47 Implementation Guidance section G?

Commented [LV23]: Note to Board Members (Q15)
PBE IPSAS 23 contains New Zealand Not-for-profit implementation guidance related to bequests, Cash donations and fundraising, goods and services in-kind and uncompleted obligations. We recommend incorporating this guidance into PBE IPSAS 47 as it would assist with consistency, clarity and enhance understanding.
The PBE IPSAS 23 guidance has been separately attached in the email to the Drafting Support Group. However, we have not yet analyzed this guidance in detail to ensure it aligns with the requirements in PBE IPSAS 47.

At the October meeting, we intend to ask Board members if they agree with the inclusion of the PBE IPSAS 23 NZ NFP guidance in PBE IPSAS 47.

Illustrative Examples

Commented [LV24]: Note to Board Members
These examples have been adjusted to better fit the New Zealand context.
Board memo 7.2 covers the modifications to the illustrative examples in more detail.

These examples accompany, but are not part of, PBE IPSAS 47.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in PBE IPSAS 47 *Revenue*, to particular revenue transactions based on the given facts. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying PBE IPSAS 47.

Identify the Revenue Transaction

IE2. Examples 1–2 illustrate the requirements in paragraphs 9–16 of PBE IPSAS 47 on the determination of whether an entity has entered into a revenue transaction with or without a binding arrangement.

Example 1 – Transaction Arose from an Arrangement that is Not Binding

Case A – No Obligations, No Specified Time Period, and No Reporting to the Government

IE3. A social development entity (the Entity) receives funding of CU5[9] million from a government body (the Government) to fund its employment programmes. The agreement requires funding to be spent on programmes with the goal of improving employment in the region. If the Entity incurs expenditures to improve employment in the region, it is able to enforce its right to receive funding from the Government. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programmes, nor how the Government will receive or verify information on how the funds were spent.

IE4. The Entity concludes that the funding agreement is not a binding arrangement in accordance with paragraph 4 of PBE IPSAS 47. Although the Entity has an enforceable right to resources from the Government if it incurs eligible expenditures, it does not have an enforceable obligation because the Government does not have the ability to enforce how the Entity uses funds in a specific way (e.g., specific programmes) or within a specific time period. The Government also has no realistic way to enforce the requirement to spend all of the funds. As a result, the entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue from a transaction without a binding arrangement.

Case B – Specified Time Period to Spend Funds

IE5. The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not change the Entity's conclusion that it has an enforceable right in the funding agreement, but does not have an enforceable obligation. This is because the Government is not able to confirm if and when the Entity spends the funds as stated in the agreement. As a result, this arrangement is not binding and the Entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue.

---

9 In these examples, monetary amounts are denominated in 'currency units' (CU).

Case C – Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE6. The same facts as in Case B apply to Case C, except the agreement also specifies how the Entity is to report its spending to the Government, and that any misused or unused funds are to be returned to the Government. The Entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving employment in the region. The Entity concludes that it has both an enforceable right and an enforceable obligation. This is because the Government is able to confirm and enforce its requirement for the Entity to spend the funds on improving employment in the region within the five-year period. The Entity shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Example 2 – Research Grant Arising from a Binding Arrangement

IE7. A research lab (the Lab) enters into an arrangement and receives CU10 million from a government agency (the Government) to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing knowhow. The agreement contains specific and measurable milestones that must be met by the Lab; if these milestones are not met, the Lab is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for the Lab to transfer the findings or any resulting intellectual property to the Government. The Lab is also able to ensure that payment is received from the Government for research work planned or completed.

IE8. Based on these terms, the Lab has concluded that the agreement is a binding arrangement in accordance with paragraph 4 of PBE IPSAS 47, as it has an enforceable obligation to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to consideration for conducting this research project. The Lab shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Enforceability

IE9. Examples 3–7 illustrate the requirements in paragraphs AG14–AG25 of PBE IPSAS 47 on enforceability, which complement the requirements in paragraphs 11–14.

Example 3 – Enforceability by Legal Means

IE10. Pursuant to a ministerial directive, a~~state~~ government agency (the Agency) signed a memorandum of understanding with a local government ~~the Department of Public Works~~ (Government L), for Government L to receive funds to build a government office building. The memorandum by itself is not binding in the court of law, does not impose a refund obligation for Government L in the event that it fails to perform under the terms of the memorandum, nor does it refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the Agency and Government L relied upon it during their contract negotiations. Government L commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Government L has reported to the Agency on its first month of work, and the Agency has accepted the work performed to date.

IE11. The parties have relied on the memorandum of understanding, as follows:

(a) Government L has performed construction services in accordance with the terms of the memorandum; and

(b) The work performed to date has been reported to and accepted by the Agency.

IE12. Thus, the memorandum is enforceable by law in the parties' jurisdiction based on the concept of promissory estoppel. That is, the Agency has the right to use its court of law to ensure that Government L satisfies the promises in the memorandum or seek redress should they not be satisfied. Similarly, Government L has the right to use the court of law to enforce the receipt of funds from the Agency for work performed to date. As a result, the memorandum is considered enforceable through legal means in accordance with paragraphs AG14–AG18 of PBE IPSAS 47.

Example 4 – Arrangement does not include an Enforceable Obligation

IE13. The central government (the Government) transfers 200 hectares of land in a major city to a university (the University) to establish a university campus. The arrangement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus or incur another form of compensation.

IE14. The University recognises the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The University considers paragraphs AG14–AG25 of PBE IPSAS 47 and concludes that the arrangement does not include an enforceable obligation because there is no mechanism to ensure that the University uses the land for a campus, and thus is not a binding arrangement. The University recognises revenue when it recognises the land as an asset in accordance with PBE IPSAS 17, *Property, Plant, and Equipment*.

Example 5 – Enforceable Right to Revenue of Aid Agency

Case A – Right to Receive Resources is not Enforceable

IE15. Green-Aid Agency (Agency) is an intergovernmental organisation which relies on annual funding from a group of governments to deliver on its initiatives. The Agency has a signed agreement with the government of a sovereign state (State) which specifies the percentage of the Agency's approved budget that the State will fund in 20X2. The agreement indicates that the funds received from the State can only be used to incur eligible expenditures, per the approved 20X2 budget. If funds are not used to incur eligible expenses (e.g., misused or unused), such funds must be repaid to the State at the end of its financial year on December 31, 20X2. The Agency's budget is approved in the preceding October.

IE16. As a result of the terms and conditions in the signed arrangement, the State is able to enforce the appropriate use and any repayment of funds provided to the Agency. The Agency therefore has an enforceable obligation to use resources received from the State for the eligible expenditures approved in the budget year, which meets the definition of a liability.

IE17. Based on past experience, the State is very unlikely to pay what it owes, either during the financial year or at any future time, and the Agency is not able to force the State to pay any amounts owed. Therefore, the Agency does not have an enforceable right to receive an inflow of resources from the State and the arrangement is not binding. The Agency will only recognise an asset when it receives and controls the inflow of resources from the State.

Case B – Right to Receive Resources is Enforceable

IE18. The same facts as Case A apply to Case B, except the Agency is able to prevent the State from participating in the Agency's voting processes if it does not transfer resources in accordance with the signed arrangement after the budget is approved. In this scenario, the Agency has the ability to enforce its right to receive resources (i.e., an enforceable right). As a result, each party in the arrangement has both an enforceable right and an enforceable obligation, and the arrangement is thus a binding arrangement.

Example 6 – Obligation in a Revenue Arrangement is not in Substance Enforceable

IE19. National Park Department of Country A (the Department) enters into an arrangement and receives a transfer of CU500,000 from the Bilateral Aid Agency of Country B (the Agency). The arrangement specifies that the transferred resources are required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, and returned to the Agency if the money is not used for the stated purpose. The terms of the agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that the Department has received a transfer of this type from this Agency. In prior years, the transferred resources have not been used as specified; rather, they have been used to acquire additional land adjacent to national parks for expansion purposes. The Department has not conducted any rehabilitation of deforested areas in the past thirteen years. The Agency is aware of the previous breaches of the agreement terms.

IE20. The Department analyses the transaction and concludes that, although the terms of the agreement are enforceable, such terms do not in substance hold the Department accountable to using the transfer as specified. This is because the Agency has not previously enforced the requirements of its transfers, and given no indication that it ever would. Thus, the arrangement includes the form but not the substance of an enforceable obligation (see paragraph AG25), and the arrangement would not be a binding arrangement. Therefore, the Department recognises an increase in an asset (for the transfer received) and revenue.

Example 7 – Revenue Subject to Completion of the Appropriations Process

Commented [LV25]: Note to Board Members
The dates in this example have been adjusted to more closely align with the year-end and other dates commonly used in the New Zealand context.

IE21. The central government (Government C) and local government (Government L) both have a financial year end of 30 June. On 15 September, 20X1, Government C enters into a two-year arrangement with Government L to transfer CU15 million (CU10 million in the 20X2 financial year and CU5 million in the 20X3 financial year) to Government L, to be used to reduce air pollution in accordance with Government C's policy. The arrangement includes a term that it is subject to the completion of the appropriation process.

IE22. Parliament completes the appropriation process for CU10 million on 31 October 20X1, and Government C transfers the resources on 15 November 20X1. The appropriation for CU5 million is not completed on 31 October 20X1 but is considered at a later date as part of the appropriation process for 20X3. Once resources are transferred, Government L is required to use the resources to reduce air pollution or be required by law to repay, which constitutes an enforceable obligation.

Case A – Requirement to Complete the Appropriation Process has Substance

IE23. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires Government C to fund such initiatives. The arrangement is clear that the funding is subject to the completion of the appropriation process, which is not certain, and that the amount may be reduced. Government L applies paragraphs AG14–AG25 of PBE IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE24. Government L considers substance over form to determine the effect of this term. Government L concludes that it is not able to require Government C to transfer resources nor impose consequences of not doing so. Consequently, the term has substance, and Government L does not have an enforceable right to resources until the appropriation process is completed for each year's amount. The enforceable right to resources would meet the definition of an asset on 31 October 20X1 when the appropriation process is completed, and the arrangement now meets the definition of a binding arrangement. However, Government L would

not recognise an asset or liability in its statement of financial position as at 31 October 20X1 because the binding arrangement is wholly unsatisfied.

IE25. On 15 November 20X1, Government L recognises an asset of CU10 million, and an equivalent liability, when it receives the resources. It does not recognise an asset for the CU5 million, as the appropriation process for the 20X3 amount has not been completed. Government L considers whether to disclose the CU5 million as a contingent asset in accordance with paragraph 24 in the 20X2 notes to its general purpose financial statements. Government L will assess the accounting implications of the authorisation process in 20X3 for the remaining CU5 million.

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

IE26. Authorising legislation requires Government C to invest in measures to reduce air pollution, and the arrangement is a firm commitment by Government C to meet its legislative obligations by investing in specific measures, set out in the arrangement, to be undertaken by Government L. Government L applies paragraphs AG14–AG25 of PBE IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE27. Government L considers substance over form to determine the effect of this term. Government L concludes that it has an enforceable right prior to the completion of the appropriation process because the legislation to invest in measures to reduce air pollution provides enforceability through equivalent means. Consequently, the term does not have substance. Thus, Government L has an enforceable right to resources on 15 September 20X1, which would meet the definition of an asset and the arrangement meets the definition of a binding arrangement. However, Government L would not recognise an asset or liability in its statement of financial position as at 15 September 20X1 because the binding arrangement is wholly unsatisfied.

IE28. On 15 November 20X1, Government L recognises an asset of CU10 million, and an equivalent liability. It does not recognise an asset for the CU5 million. Government L will assess the accounting implications of the authorisation process in 20X3 for the remaining CU5 million.

Revenue from Transactions without Binding Arrangements

Example 35 Case A1 also demonstrates the recognition of revenue from transactions without binding arrangements.

Example 8 – Advance Receipts of Income Tax

IE29. The Government levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the Government.

IE30. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year because the taxable event is the earning of income during the taxation period, which has not commenced. The Government recognises an increase in an asset (cash in bank) and an increase in a liability (advance receipts) in accordance with paragraph 44 of PBE IPSAS 47.

Revenue from Transactions with Binding Arrangements

Criteria to Apply the Binding Arrangement Model

IE31. Examples 9–12 illustrate the requirements in paragraphs 56–61 of PBE IPSAS 47 on whether to use the binding arrangement model. In addition, the following requirements are illustrated in these examples:

(a) The interaction of paragraph 146 of PBE IPSAS 47 with paragraphs 109 and 115 of PBE IPSAS 47 on estimating variable consideration (Examples 10–11); and

(b) Paragraph AG180 of PBE IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 12).

Example 9 – Collectability of the Consideration

IE32. A ~~local~~ government social housing agency (the Agency) has a portfolio of properties that are rented at 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 programme. 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 programme allows the Residents to pay the price over a period of 20 years, but the payments may cease once Residents have reached the age to begin collecting their superannuation, and the future payments will depend on the Resident's level of income at that time. At 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 Agency for the remaining balance of the promised consideration.

IE33. As part of this rent-to-own programme, the Agency 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 Agency, so the purchase price for the unit 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 Agency 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.

IE34. In assessing whether the binding arrangement meets the criteria in paragraph 56 of PBE IPSAS 47, the Agency concludes that the criterion in paragraph 56(e) of PBE IPSAS 47 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 Agency observes that the Resident may only pay up to CU180,000 based on the terms of the programme.

IE35. Because the criteria in paragraph 56 of PBE IPSAS 47 are not all met, the Agency applies paragraphs 58 and 81–86 of PBE IPSAS 47 to determine the accounting for the non-refundable deposit of CU5,000. The Agency observes that the events described in paragraph 58(a) have occurred—that is, the Agency has transferred control of the building to the Resident, and the Agency 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 58, the Agency recognises the non-refundable CU5,000 payment as revenue upon receipt.

Example 10 – Consideration is not the Stated Price—Implicit Price Concession

IE36. 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.

IE37. When assessing whether the criterion in paragraph 56(e) of PBE IPSAS 47 is met, the Agency also considers paragraphs 109 and 115(b) of PBE IPSAS 47. 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 concludes that the transaction consideration is not CU1 million and the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.

IE38. 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 56(e) of PBE IPSAS 47 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 56 of PBE IPSAS 47 are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction consideration of CU400,000, in accordance with paragraphs 56–147 in PBE IPSAS 47.

Example 11 – Compelled Revenue Transaction—Implicit Price Concession

IE39. A government hospital (the Hospital) provides medical services to an uninsured tourist (the patient) in the emergency room. The Hospital is required by law to provide medical services to all emergency room patients, and patients are required to pay, and the arrival of a patient in the emergency room constitutes the initiation of a binding arrangement. 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 Hospital can determine whether the patient is committed to satisfying its obligation to pay for services received in exchange for the medical services provided. Consequently, the binding arrangement does not meet all of the criteria in paragraph 56 of PBE IPSAS 47 and, in accordance with paragraph 58 of PBE IPSAS 47, the Hospital will continue to assess its conclusion based on updated facts and circumstances.

IE40. 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, 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.

IE41. The Hospital considers paragraphs 109 and 115(b) of PBE IPSAS 47. 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 concludes that the transaction consideration 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.

IE42. In accordance with paragraph 56(e) of PBE IPSAS 47, 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 (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 56 of PBE IPSAS 47 are also met. Consequently, the Hospital accounts for the binding arrangement with the patient, at a transaction consideration of CU1,000, in accordance with the requirements in PBE IPSAS 47.

Example 12 – Reassessing the Criteria to Apply the Binding Arrangement Model

IE43. A Government's Minerals Division ~~Department of Natural Resources~~ (the Minerals Division) issues a permit to mine minerals to a private sector mining company (the Company) in exchange for a royalty based on the amount of minerals extracted. At inception, the binding arrangement meets all the criteria in paragraph 56 of PBE IPSAS 47 and the Minerals Division accounts for the binding arrangement with the Company in accordance with paragraphs 56–147 in PBE IPSAS 47. The Minerals Division recognises revenue when the Company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG180 of PBE IPSAS 47.

IE44. Throughout the first year of the binding arrangement, the Company provides quarterly extraction reports and pays within the agreed-upon period.

IE45. During the second year of the binding arrangement, the Company continues to extract minerals from the property, but its financial condition declines. The Company's current access to credit and available cash on hand are limited. The Minerals Division continues to recognise revenue on the basis of the Company's extraction throughout the second year. The 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 Minerals Division accounts for any impairment of the existing receivable in accordance with PBE IPSAS 41 *Financial Instruments*.

IE46. During the third year of the binding arrangement, the Company continues to use the permit issued by the Minerals Division. However, the Minerals Division learns that the Company has lost access to credit and its major customers, and thus the Company's ability to pay significantly deteriorates. The Minerals Division therefore concludes that it is unlikely that the 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 57 of PBE IPSAS 47, the Minerals Division reassesses the criteria in paragraph 56 of PBE IPSAS 47 and determines that they are not met because it is no longer probable that the Minerals Division will collect the consideration to which it will be entitled. Accordingly, the Minerals Division does not recognise any further revenue associated with the Company's future usage of its permit. The Minerals Division accounts for any impairment of the existing receivable in accordance with PBE IPSAS 41.

Modifications

IE47. Examples 13–15 illustrate the requirements in paragraphs 63–66 of PBE IPSAS 47 on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 68–77 of PBE IPSAS 47 on identifying compliance obligations (Example 15);

(b) Paragraphs 119–121 of PBE IPSAS 47 on constraining estimates of variable consideration (Examples 14 and 15); and

(c) Paragraphs 144–147 of PBE IPSAS 47 on changes in the transaction consideration (Example 14).

Example 13 – Modification of a Binding Arrangement for Goods

IE48. An intergovernmental organisation (the Organisation) promises to provide 1.2 million textbooks to a central government (the Government) for CU12 million (CU10 per textbook). The textbooks are transferred to the Government over a six-month period. The CU12 million is funded by the Organisation's donors. The Organisation transfers control of each textbook at a point in time. After the Organisation has transferred control of 600,000 textbooks to the Government, the binding arrangement is modified to require the delivery of an additional 300,000 textbooks (a total of 1.5 million identical textbooks) to the Government. The additional 300,000 textbooks were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone Value

IE49. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 textbooks is an additional CU2.85 million or CU9.5 per textbook. The pricing for the additional textbooks reflects the stand-alone value of the textbooks at the time of the modification to the binding arrangement and the additional textbooks are distinct (in accordance with paragraph 73 of PBE IPSAS 47) from the original textbooks.

IE50. In accordance with paragraph 65 of PBE IPSAS 47, the modification to a binding arrangement for the additional 300,000 textbooks is, in effect, a new and separate binding arrangement for future textbooks that does not affect the accounting for the existing binding arrangement. The Organisation recognises revenue of CU10 per textbook for the 1.2 million textbooks in the original binding arrangement and CU9.5 per textbook for the 300,000 textbooks in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone Value

IE51. During the process of negotiating the purchase of an additional 300,000 textbooks, the parties initially agree on a price of CU8.0 per textbook. However, the Government and the donors discover that the initial 600,000 textbooks provided by the Organisation contained minor misprints. The Organisation promises a partial credit of CU1.5 per textbook to compensate the donors for the poor quality of those textbooks. The Department and the donors agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 textbooks) into the amount that the Organisation will require for the additional 300,000 textbooks. Consequently, the modification to the binding arrangement specifies that the price of the additional 300,000 textbooks is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 textbooks of CU2.4 million, or CU8.0 per textbook, less the credit of CU900,000.

IE52. At the time of modification, the Organisation recognises the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of revenue for the initial 600,000 textbooks transferred. In accounting for the sale of the additional 300,000 textbooks, the Organisation determines that the negotiated price of CU8.0 per product does not reflect the stand-alone value of the additional textbooks. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 65 of PBE IPSAS 47 to be accounted for as a separate binding arrangement. Because the remaining textbooks to be delivered are distinct from those already transferred, the Organisation applies the requirements in paragraph 66(a) of PBE IPSAS 47 and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE53. Consequently, the amount recognised as revenue for each of the remaining textbooks is a blended price of CU9.33 {[(CU10 × 600,000 textbooks not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 textbooks to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining textbooks}.

Example 14 – Change in the Transaction Consideration after a Modification of a Binding Arrangement

IE54. On 1 July 20X0, the Ministry ~~Department~~ of Defence (the Ministry) promises to transfer two distinct used military products, a light-armoured vehicle and spare parts, to a foreign government (Government F). The light-armoured vehicle is transferred to Government F at the inception of the binding arrangement and spare parts are transferred on March 31, 20X1. The consideration promised by Government F includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Ministry includes its estimate of variable consideration in the transaction consideration because it concludes that it is highly probable that a significant reversal in cumulative revenue recognised will not occur.

IE55. The transaction consideration of CU1.2 million is allocated equally to the compliance obligation for the light-armoured vehicle and the compliance obligation for spare parts. This is because both products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that requires allocation of the variable consideration to one but not both of the compliance obligations.

IE56. When the light-armoured vehicle was transferred to Government F at the inception of the binding arrangement, the Ministry recognises revenue of CU600,000.

IE57. On 30 November 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to Government F on 30 June 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone value of ammunition. The stand-alone value of ammunition is the same as the stand-alone values of the light-armoured vehicle and spare parts.

IE58. The Ministry accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armoured vehicle, which had transferred to Government F before the modification, and the promised consideration for the ammunition does not represent its stand-alone value. Consequently, in accordance with paragraph 66(a) of PBE IPSAS 47, the consideration to be allocated to the remaining compliance obligations comprises the consideration that had been allocated to the compliance obligation for spare parts (which is measured at an allocated transaction consideration amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction consideration for the modified binding arrangement is CU900,000 and that amount is allocated equally to the compliance obligation for spare parts and the compliance obligation for ammunition (i.e., CU450,000 is allocated to each compliance obligation).

IE59. After the modification but before the delivery of spare parts and ammunition, the Ministry revises its estimate of the amount of variable consideration to which it expects to be entitled to CU240,000 (rather than the previous estimate of CU200,000). The Ministry concludes that the change in estimate of the variable consideration can be included in the transaction consideration, because it is highly probable that a significant reversal in cumulative revenue recognised will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph 66(a) of PBE IPSAS 47, the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 147 of PBE IPSAS 47, the change in the transaction consideration is allocated to the compliance obligations for the light-armoured vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Ministry recognises revenue of CU20,000 for the light-armoured vehicle in the period in which the change in the transaction consideration occurs. Because the spare parts had not transferred to Government F before the

modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining compliance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph 66(a) of PBE IPSAS 47 if that amount of variable consideration had been estimated and included in the transaction consideration at the time of the modification of a binding arrangement.

IE60. The Ministry then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the compliance obligations for spare parts and ammunition. This is because the products have the same stand-alone values, and the variable consideration does not meet the criteria in paragraph 142 that require allocation of the variable consideration to one but not both of the compliance obligations. Consequently, the amount of the transaction consideration allocated to the compliance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE61. On 31 March 20X1, the spare parts are transferred to Government F and the Ministry recognises revenue of CU460,000. On 30 June 20X1, the ammunition is transferred to the foreign government and the Ministry recognises revenue of CU460,000.

Example 15 – Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

IE62. A Government Agency ~~The Department of Public Works~~ (the Agency) enters into a binding arrangement to construct a residential building for the Ministry ~~Department~~ of Housing (Housing) on land owned by Housing for promised consideration of CU10 million and a bonus of CU2 million if the building is completed within 24 months. The Agency accounts for the promised bundle of goods and services as a single compliance obligation satisfied over time in accordance with paragraph AG72(b) of PBE IPSAS 47 because Housing controls the building during construction. At the inception of the binding arrangement, the Agency expects the following:

	CU
Transaction consideration	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	1,000,000

IE63. At the inception of the binding arrangement, The Agency excludes the CU2 million bonus from the transaction consideration because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Completion of the building is highly susceptible to factors outside the Agency's influence, including weather and regulatory approvals. In addition, the Agency has limited experience with similar types of binding arrangements.

IE64. The Agency determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the compliance obligation. By the end of the first year, the Agency has satisfied 60 percent of its compliance obligation on the basis of costs incurred to date (CU5.4 million) relative to total expected costs (CU9 million). The Agency reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 119–121 of PBE IPSAS 47. Consequently, the cumulative revenue and costs recognised for the first year are as follows:

	CU
Revenue	6,000,000
Costs	5.400,000

Surplus	600,000

IE65. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU1.5 million and CU1.2 million, respectively. Total potential consideration after the modification is CU13.5 million (CU11.5 million fixed consideration + CU2 million completion bonus). In addition, the allowable time for achieving the CU2 million bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, the Agency concludes that it is highly probable that including the bonus in the transaction consideration will not result in a significant reversal in the amount of cumulative revenue recognised in accordance with paragraph 119 of PBE IPSAS 47 and includes the CU2 million in the transaction consideration. In assessing the modification to a binding arrangement, the Agency evaluates paragraph 73(b) of PBE IPSAS 47 and concludes (on the basis of the factors in paragraph 76 of PBE IPSAS 47) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single compliance obligation.

IE66. Consequently, the Agency accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph 66(b) of PBE IPSAS 47). The Agency updates its measure of progress and estimates that it has satisfied 52.9 percent of its compliance obligation (CU5.4 million actual costs incurred ÷ CU10.2 million total expected costs). The Agency recognises additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction consideration) – CU6 million revenue recognised to date] at the date of the modification as a cumulative catch-up adjustment in the Statement of Comprehensive Revenue and Expenses.

Identifying Compliance Obligations in a Binding Arrangement

IE67. Examples 16–19 illustrate the requirements in paragraphs 68–77 of PBE IPSAS 47 on identifying compliance obligations.

Example 16 – Determining Whether Goods or Services are Distinct

Case A – Distinct Goods or Services

IE68. A government shared IT services agency (the Agency) enters into a binding arrangement with a central government (the Government) to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The Agency provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE69. The Agency assesses the goods and services promised to the Government to determine which goods and services are distinct in accordance with paragraph 73 of PBE IPSAS 47. The Agency observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. The Government can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the Agency

concludes that the Government can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 73(a) of PBE IPSAS 47 is met.

IE70. The Agency also considers the principle and the factors in paragraph 76 of PBE IPSAS 47 and determines that the promise to transfer each good and service to the Government is separately identifiable from each of the other promises (thus the criterion in paragraph 73(b) of PBE IPSAS 47 is met). In reaching this determination, the Agency considers that, although it integrates the software into the Government's system, the installation services do not significantly affect the Government's ability to use and generate economic benefits or service potential from the software licence because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the Government's ability to use, and benefit or receive service potential from, the software license during the licence period. The Agency further observes that none of the promised goods or services significantly modify or customise one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the Agency concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency would be able to satisfy its promise to transfer the initial software licence independently from its promise to subsequently provide the installation service, software updates or technical support.

IE71. On the basis of this assessment, the Agency identifies four compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The software licence;

(b) An installation service;

(c) Software updates; and

(d) Technical support.

IE72. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each of the compliance obligations for the installation service, software updates and technical support is satisfied at a point in time or over time. The Agency also assesses the nature of the Agency's promise to transfer the software licence in accordance with paragraph AG173 of PBE IPSAS 47.

Case B – Significant Customisation

IE73. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the Government. The customised installation service can be provided by other entities.

IE74. The Agency assesses the goods and services promised to the Government to determine which goods and services are distinct in accordance with paragraph 73 of PBE IPSAS 47. The Agency first assesses whether the criterion in paragraph 73(a) has been met. For the same reasons as in Case A, the Agency determines that the software licence, installation, software updates and technical support each meet that criterion. The Agency next assesses whether the criterion in paragraph 73(b) has been met by evaluating the principle and the factors in paragraph 76 of PBE IPSAS 47. The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licenced software into the existing software system by performing a customised installation service as specified in the binding arrangement. In other words, the Agency is using the licence and the customised installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the

binding arrangement (see paragraph 76(a) of PBE IPSAS 47). The software is significantly modified and customised by the service (see paragraph 76(b) of PBE IPSAS 47). Consequently, the Agency determines that the promise to transfer the licence is not separately identifiable from the customised installation service and, therefore, the criterion in paragraph 73(b) of PBE IPSAS 47 is not met. Thus, the software licence and the customised installation service are not distinct.

IE75. On the basis of the same analysis as in Case A, the Agency concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE76. On the basis of this assessment, the Agency identifies three compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) Software customisation (which comprises the licence for the software and the customised installation service);

(b) Software updates; and

(c) Technical support.

IE77. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case C – Promises are Separately Identifiable (Installation)

IE78. A shared IT services agency (the Agency) enters into a binding arrangement with a central government office (Government) to provide a piece of equipment and installation services. The equipment is operational without any customisation or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE79. The Agency identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The Agency assesses the criteria in paragraph 73 of PBE IPSAS 47 to determine whether each promised good or service is distinct. The Agency determines that the equipment and the installation each meet the criterion in paragraph 73(a) of PBE IPSAS 47. The Government can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The Government also can generate economic benefits or service potential from the installation services together with other resources that the Government will already have obtained from the Agency (i.e., the equipment).

IE80. The Agency further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph 73(b) of PBE IPSAS 47). The Agency considers the principle and the factors in paragraph 76 of PBE IPSAS 47 in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors in paragraph 76 of PBE IPSAS 47 contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to satisfy its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customise or significantly modify the equipment.

(c) Although the Government can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to satisfy its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE81. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) Installation services.

IE82. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case D – Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

IE83. Assume the same facts as in Case C, except that the Government is required to use the Agency's installation services in the binding arrangement.

IE84. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the Government. Although the Government is required to use the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph 73(a) of PBE IPSAS 47) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable (i.e., they each meet the criterion in paragraph 73(b) of PBE IPSAS 47). The Agency's analysis in this regard is consistent with that in Case C.

Case E – Promises are Separately Identifiable (Consumables)

IE85. A shared IT services agency (the Agency) enters into a binding arrangement with a central government office (Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customisation or modification) and to provide specialised consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE86. The Agency determines that the Government can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 75 of PBE IPSAS 47, because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The Government can generate economic benefits or service potential from the consumables that will be delivered under the binding arrangement, together with the delivered equipment that is transferred to the Government initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47.

IE87. The Agency determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph 73(b) of PBE IPSAS 47. In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the Agency considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customised or modified by the other. Lastly, the Agency concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the Government can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to satisfy each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to satisfy its promise to transfer the equipment, even if the Government did not purchase any consumables, and would be able to satisfy its promise to provide the consumables, even if the Government acquired the equipment separately.

IE88. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) The consumables.

IE89. The Agency applies paragraphs 87–97 of PBE IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Example 17 – Goods and Services are not Distinct

Case A – Significant Integration Service: Hospital Construction

IE90. A health facility agency ~~The Department of Public Works~~ (the Agency) enters into a binding arrangement with the Ministry~~Department~~ of Health to build a hospital. The Agency is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE91. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47. That is, the Ministry of Health can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that the Agency regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Ministry of Health could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE92. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph 73(b) of PBE IPSAS 47 (on the basis of the factors in paragraph 76 of PBE IPSAS 47). This is evidenced by the fact that the Agency provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Ministry of Health has entered into a binding arrangement.

IE93. Because the criterion in paragraph 73(b) of PBE IPSAS 47 is not met, the goods and services are not distinct. The Agency accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case B – Significant Integration Service: Road Trains Production and Delivery

IE94. A government organisation ~~The Department of Research Sciences~~ (the Organisation) enters into a binding arrangement with a local government (Government L) that will result in the delivery of multiple highly complex, specialised road trains. The terms of the binding arrangement require the Organisation to establish a manufacturing process in order to produce the road trains. The specifications are unique to Government L, based on a custom design that is owned by Government L and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Organisation is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE95. The Organisation assesses the promises in the binding arrangement and determines that each of the promised road trains is capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47 because Government L can generate economic benefits or service potential from each road train on its own. This is because each road train can function independently of the other road trains.

IE96. The Organisation observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which Government L has entered into a binding arrangement in accordance with Government L's specifications. The Organisation considers that it is responsible for the overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output). Therefore, the road trains and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph 73(b) and paragraph 76 of PBE IPSAS 47. In this case, the manufacturing process provided by the Organisation is specific to its binding arrangement with Government L. In addition, the nature of the Organisation's performance and, in particular, the significant integration service of the various activities means that a change in one of the Organisation's activities to produce the road trains has a significant effect on the other activities required to produce the highly complex, specialised road trains such that the Organisation's activities are highly interdependent and highly interrelated.

IE97. Because the criterion in paragraph 73(b) of PBE IPSAS 47 is not met, the goods and services that will be provided by the Organisation are not distinct. The Organisation accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case C – Significant Integration Service: Emergency Response

IE98. An Emergency Aid Agency (the Agency) enters into an arrangement with an International Development Organisation (the Organisation) and receives CU1 million to provide emergency flood response services to the citizens in an affected region which did not have sufficient resources to respond to the crisis. The Agency has applied paragraphs 9–16 of PBE IPSAS 47 and determined that the arrangement is a binding arrangement. Under the terms of the binding arrangement, the Agency is required to acquire blankets and shelter sheets, and to purchase various types of equipment such as water pumps, reservoirs, buckets, and brooms to provide cleanup services. The terms of the binding arrangement stated that the Agency may also need to engage in other activities or incur eligible expenditures that are not explicitly listed but are necessary to meet the overall objective of providing emergency flood response services to affected citizens. The

Agency noted that, in the context of the binding arrangement, the transport and distribution of the purchased blankets and shelter sheets are not explicitly listed in the binding arrangement but would qualify as an eligible expenditure that is necessary and therefore is an implicit promised service.

IE99. The promised goods and services are capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47 because the citizens in the affected region are able to generate economic benefits or service potential from the supplies and cleanup services either on their own or together with other resources readily available.

IE100. However, the Agency determines that the promised goods and services to be transferred to the citizens are not separately identifiable in accordance with paragraph 73(b) of PBE IPSAS 47 on the basis of the factors in paragraph 76 of PBE IPSAS 47. This is because the nature of its promise in the binding arrangement is to meet the immediate emergency needs and provide prompt humanitarian assistance to citizens in the affected region. The Agency notes that in order to meet the terms of the binding arrangement, it is required to provide a significant service of integrating the goods or services (the inputs) to provide emergency flood response services (the combined output).

IE101. Because the criterion in paragraph 73(b) of PBE IPSAS 47 is not met, the goods and services are not distinct. Rather, the combined bundle of goods and services in the binding arrangement is distinct. The Agency accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Example 18 – Transfer of Resources to Another Level of Government with Compliance Obligations

IE102. The Ministry of Transport ~~national government~~ (Ministry T) provides CU10 million to a ~~provincial~~ government railway agency (Agency R) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernisation, 40 percent for a new railroad or tramway system, and 20 percent for the purchase of rolling stock. Under the terms of the binding arrangement, the money can only be used as specified and any misused or unused amounts must be repaid to Ministry T. Furthermore, Agency R is required to include a note in its audited general purpose financial statements detailing how the transferred resources were spent. The binding arrangement requires the resources to be spent as specified in the current year or be returned to Ministry T.

IE103. Agency R recognises the inflow of CU10 million as an asset, and an equivalent liability because it is required to transfer resources back to Ministry T if it does not satisfy the compliance obligations in the binding arrangement.

IE104. Agency R notes that various goods and services not explicitly stated in the binding arrangement are required to satisfy the binding arrangement. For example, certain goods and services would be required to modernise the existing railroad and tramway system, while other goods and services would be required to build a new railroad or tramway system. Thus, Agency R conducts a thorough assessment to identify all goods and services inherently promised in the binding arrangement. It then determines that the promised goods and services are capable of being distinct in accordance with paragraph 73(a) of PBE IPSAS 47 because Ministry T can generate economic benefits or service potential from each good and service on its own or together with other readily available resources.

IE105. Considering the context of the binding arrangement, Agency R observes that the nature of its promise in the binding arrangement is to use the resources in three individually specific ways rather than in a combined manner:

(a) The goods and services to modernise the existing railroad and tramway system represent a single combined output: the modernisation of the existing system. Agency R provides a significant service of integrating these goods and services into a single output that is separately identifiable from other goods or services in the binding arrangement. Similarly, the goods and services to build a new railroad or tramway system represent a single combined output, and the purchase of rolling stock represents a single output; and

(b) Agency R is not significantly integrating these three combined outputs, nor do the outputs significantly modify, customise, or depend on each other. Rather, Agency R is responsible for generating three separately identifiable outputs in accordance with paragraphs 73(b) and 76 of PBE IPSAS 47: the modernisation work, the new system, and the rolling stock.

IE106. Because both criteria in paragraph 73 of PBE IPSAS 47 are met, the binding arrangement contains three separate compliance obligations;

(a) The compliance obligation to use CU4 million for modernising the existing railroad and tramway system;

(b) The compliance obligation to use CU4 million for a new railroad or tramway system; and

(c) The compliance obligation to use CU2 million for purchasing rolling stock.

IE107. Agency R reduces the liability as or when it satisfies the compliance obligations, and recognises revenue in the statement of comprehensive revenue and expenses of the reporting period.

Example 19 – Explicit and Implicit Promises in a Binding Arrangement

IE108. A government entity (the Government), with the objective of providing broadband internet services to citizens in rural areas, provides modem equipment to a telecommunications company (the Telecom) (i.e., the Government's purchaser) who will then resell it to members of the public (i.e., the Telecom's customers) for below-market prices.

Case A—Explicit Promise of Service

IE109. In the binding arrangement with the Telecom, the Government promises to provide maintenance services for no additional consideration (i.e., 'free') to any end customer (i.e., members of the public) who purchased a modem from the Telecom. The Government outsources the performance of the maintenance services to the Telecom and pays the Telecom an agreed-upon amount for providing those services on the Government's behalf. If the end customer does not use the maintenance services, the Government is not obligated to pay the Telecom.

IE110. The binding arrangement with the Telecom includes two promised goods or services: (a) the modem and (b) the maintenance services. The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the Government and the Telecom. The Government assesses whether each good or service is distinct in accordance with paragraph 73 of PBE IPSAS 47. The Government determines that both the product and the maintenance services meet the criterion in paragraph 73(a) of PBE IPSAS 47. The Government provides the modem on a stand-alone basis, which indicates that the Telecom can generate economic benefits or service potential from the modem on its own. The Telecom can generate economic benefits or service potential from the maintenance services together with a resource the Telecom already has obtained from the Government (i.e., the modem).

IE111. The Government further determines that its promises to transfer the modem and to provide the maintenance services are separately identifiable (in accordance with paragraph 73(b) of PBE IPSAS 47 on the basis of the

principle and the factors in paragraph 76 of PBE IPSAS 47). The modem and the maintenance services are not inputs to a combined item in the binding arrangement. The Government is not providing a significant integration service because the presence of the modem and the services together in this binding arrangement do not result in any additional or combined functionality. In addition, neither the modem nor the services modify or customise the other. Lastly, the modem and the maintenance services are not highly interdependent or highly interrelated because the Government would be able to satisfy each of the promises in the binding arrangement independently of its efforts to satisfy the other (i.e., the Government would be able to transfer the modem even if the Telecom (through the individual end customers) declined maintenance services, and would be able to provide maintenance services in relation to modems provided previously through other distributors). The Government also observes, in applying the principle in paragraph 76 of PBE IPSAS 47, that the Government's promise to provide maintenance is not necessary for the product to continue to provide significant economic benefits or service potential to the Telecom. Consequently, the Government concludes that there are two compliance obligations (i.e., the modem and the maintenance services) in the binding arrangement.

Case B—Implicit Promise of Service

IE112. Continuing with the fact pattern in Case A, the Government has historically provided maintenance services for no additional consideration (i.e., 'free') to end customers in rural areas who purchased the Government's modem from the Telecom. The Government is now rolling out a similar programme to urban areas. During the negotiations on this new urban programme, the Government does not explicitly promise maintenance services during negotiations with the Telecom and the final binding arrangement between the Government and the Telecom does not specify terms or conditions for those services.

IE113. However, on the basis of its customary practice, the Government determines at the inception of the new binding arrangement that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the Telecom. That is, the Government's past practices of providing these services in rural areas create valid expectations of the Government's purchasers (i.e., the Telecom) in accordance with paragraph 71 of PBE IPSAS 47. Consequently, the Government assesses whether the promise of maintenance services is a compliance obligation. For the same reasons as in Case A, the Government determines that the product and maintenance services are separate compliance obligations.

Case C—Services are not a Promised Service

IE114. As a further variation from Cases A and B, in the binding arrangement with the Telecom, the Government does not promise to provide any maintenance services. In addition, the Government typically does not provide maintenance services and, therefore, the Government's customary practices, published policies and specific statements at the time of entering into the binding arrangement have not created an implicit promise to provide goods or services to its purchasers. The Government transfers control of the modem to the Telecom and, therefore, the binding arrangement is completed. However, before the sale to the Telecom's end customers, the Government makes an offer to provide maintenance services to any party that purchases a modem from the Telecom for no additional promised consideration.

IE115. The promise of maintenance is not included in the binding arrangement between the Government and the Telecom at the inception of the binding arrangement. That is, in accordance with paragraph 71 of PBE IPSAS 47, the Government does not explicitly or implicitly promise to provide maintenance services to the Telecom or the end customers. Consequently, the Government does not identify the promise to provide maintenance services as a compliance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

IE116. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with the Telecom or other telecommunications companies, the Government would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Recognition of Revenue Transactions with a Binding Arrangement

Satisfied Over Time or at a Point in Time

IE117. Examples 20–22 illustrate the requirements in paragraphs 92–93 and 95 of PBE IPSAS 47 on the satisfaction of compliance obligations over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 92(a) of PBE IPSAS 47 for transactions with compliance obligations to use resources for goods or services internally on when an entity simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. Additionally, paragraphs 83 and AG62 require liability recognition if another party can enforce their rights and impose a non-compliance consequence that necessitates an incremental transfer of resources. This example demonstrates these requirements for a revenue transaction involving resources received for an entity's internal use. (Example 20 Case A);

(b) Paragraphs 95(a) of PBE IPSAS 47 for transactions with compliance obligations to transfer goods or services to another party on when a purchaser or third-party beneficiary simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case B, and Example 21);

(c) Paragraphs 95(c) and 96–97 of PBE IPSAS 47 on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to receive consideration for performance completed to date (Examples 21–22); and

(d) Paragraph 97 of PBE IPSAS 47 on compliance obligations satisfied at a point in time (Example 22).

Example 20 – Resource Provider Simultaneously Receives and Consumes the Economic Benefits or Service Potential

Case A – Satisfaction of Compliance Obligation to Use Resources for Goods or Services Internally

IE118. A local government (the Government) enters into a binding arrangement to provide CU1.2 million to a hospital (the Hospital). The Government requires the Hospital to use the CU1.2 million in the operation of its medical imaging department. The binding arrangement specifies that the funds must be utilised within the next two years. The CU1.2 million will be paid to the Hospital in advance. Any amount that remains unused after this period must be returned to the Government..

IE119. The use of funds in the medical imaging department is a single compliance obligation in accordance with paragraph 68(b) of PBE IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 92(a) of PBE IPSAS 47 because the Hospital simultaneously receives and consumes the economic benefits or service potential of the received resources as it is used. The Hospital recognises revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47. Unused amounts are recognised as a binding arrangement liability because the return of unused funds is unavoidable. The Government can enforce its rights and impose non-compliance consequences that require the return of funds (incremental transfer of resources) in accordance with paragraph 83 and AG62 of PBE IPSAS 47.

Commented [LV26]: Note to Board Members (Q16)
The amendment to the illustrative example in the ED is due to Board decisions - June 2024 which was - include an illustrative example in draft PBE IPSAS 47 that demonstrates the deferral of revenue in transactions involving resources received for an entity's internal use with varying consequences – however, before adding a new illustrative example, the staff will first evaluate whether an existing example can be expanded upon.

Example 20 has been expanded to demonstrate the recognition of a liability in revenue transactions involving resources received for an entity's internal use.

Question 16 to Board members

Refer to paragraph 23 in agenda item 7.2.

Does the Board agree with the expanded illustrative example 20 in paragraphs IE117-IE119, or should a new example be added instead?

Case B – Satisfaction of Compliance Obligation to Transfer Goods or Services to Another Party

IE120. A payroll shared service centre (the Payroll Centre) enters into a binding arrangement to provide monthly payroll processing services to a government department of Education (the Department) for one year.

IE121. The promised payroll processing services are accounted for as a single compliance obligation in accordance with paragraph 68(b) of PBE IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 95(a) of PBE IPSAS 47 because the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Centre's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Centre has provided to date also demonstrates that the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Centre's performance as the Payroll Centre performs. The Payroll Centre disregards any practical limitations on transferring the remaining compliance obligation, including setup activities that would need to be undertaken by another entity. The Payroll Centre recognises revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47.

Example 21 – Assessing Alternative Use and Right to Consideration

Commented [LV27]: Note to Board Members
In the IPSASB example, the Agency had the option to terminate the audit, which is not possible in New Zealand.
This example has been adjusted to a scenario where the OAG would appoint an auditor. This appointed auditor engagement can be terminated in NZ.

IE122. The Auditor-General appoints an auditor (Auditor A) on its behalf to provide financial statement audit services to a government agency (the Agency). Auditor A enters into a binding arrangement with the Agency that results in Auditor A providing an audit opinion to the Agency. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Agency. ~~If the Agency were to terminate the audit for reasons other than the Auditor's failure to perform as promised,~~ The binding arrangement requires the Agency to compensate Auditor A for its costs incurred at any point in time, with payments to be made at regular intervals.

IE123. Auditor A considers the criterion in paragraph 95(a) of PBE IPSAS 47 to determine whether the Agency simultaneously receives and consumes the economic benefits or service potential of Auditor A's performance. If Auditor A were to be unable to satisfy its compliance obligation and the Auditor-General subsequently appointed another audit firm (Auditor B) to provide the opinion, Auditor B would need to substantially re-perform the work that Auditor A had completed to date, because Auditor B would not have the economic benefits or service potential of any work in progress performed by Auditor A. The nature of the audit opinion is such that the Agency will generate economic benefits or service potential of Auditor A's performance only when the Agency receives the audit opinion. Consequently, Auditor A concludes that the criterion in paragraph 95(a) of PBE IPSAS 47 is not met.

IE124. However, Auditor A's compliance obligation meets the criterion in paragraph 95(c) of PBE IPSAS 47 because the audit work completed to date would not have any alternative use, as it would be specific to the audit of the Agency. Thus, Auditor A has a compliance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 96 of PBE IPSAS 47, the development of the audit opinion does not create an asset with an alternative use to Auditor A because the audit relates to facts and circumstances that are specific to the Agency. Therefore, Auditor A cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 97 of PBE IPSAS 47, Auditor A has an enforceable right to receive consideration for its performance completed to date for its costs.

IE125. Consequently, Auditor A recognises revenue over time by measuring the progress towards complete satisfaction of the compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47.

Example 22 – Assessing Whether a Compliance Obligation is Satisfied at a Point in Time or Over Time

IE126. The government housing agency ~~Department of Public Works~~ (Agency H) is developing multi-unit residential complexes to be sold to a Not-for-Profit entity ~~the Department of Housing~~ (the NFP) as well as a variety of commercial entities. The NFP enters into a binding arrangement with Agency H for specified units that are under construction. These units have a similar floor plan and are of a similar size, but other attributes of the units are different (for example, the location of the units within the complex).

Case A – Entity does not have an Enforceable Right to Consideration for Performance Completed to Date

IE127. The NFP pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Agency H fails to complete construction of the units in accordance with the binding arrangement. The remainder of the consideration is payable on completion of the binding arrangement when the NFP obtains physical possession of the units. If the NFP defaults on the binding arrangement before completion of the units, Agency H only has the right to retain the deposit.

IE128. At the inception of the binding arrangement, Agency H applies paragraph 95(c) of PBE IPSAS 47 to determine whether its promise to construct and transfer the units to the NFP is a compliance obligation satisfied over time. Agency H determines that it does not have an enforceable right to consideration for performance completed to date because, until construction of the units is complete, it only has a right to the deposit paid by the NFP. Because Agency H does not have a right to consideration for work completed to date, its compliance obligation is not a compliance obligation satisfied over time in accordance with paragraph 95(c) of PBE IPSAS 47. Instead, Agency H accounts for the sale of the units as compliance obligations satisfied at a point in time in accordance with paragraph 97 of PBE IPSAS 47.

Case B – Entity has an Enforceable Right to Consideration for Performance Completed to Date

IE129. The NFP pays a non-refundable deposit upon entering into the binding arrangement and will make progress payments during construction of the units. The binding arrangement has substantive terms that preclude Agency H from being able to direct the units to another purchaser. In addition, the NFP does not have the right to terminate the binding arrangement unless Agency H fails to perform as promised. If the NFP defaults on its obligations by failing to make the promised progress payments as and when they are due, Agency H would have a right to all of the consideration promised in the binding arrangement if it completes the construction of the units. The courts have previously upheld similar rights that entitle developers to require the purchaser to perform, subject to the entity meeting its compliance obligations under the binding arrangement.

IE130. At the inception of the binding arrangement, Agency H applies paragraph 95(c) of PBE IPSAS 47 to determine whether its promise to construct and transfer the units to the NFP is a compliance obligation satisfied over time. Agency H determines that the units it constructs do not have an alternative use to Agency H because the binding arrangement precludes Agency H from transferring the specified units to another

purchaser. Agency H does not consider the possibility of a termination of a binding arrangement in assessing whether it is able to direct the units to another purchaser.

IE131. Agency H also has a right to consideration for performance completed to date in accordance with paragraphs 97(a) of PBE IPSAS 47. This is because if the NFP were to default on its obligations, Agency H would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.

IE132. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to consideration for performance completed to date. Consequently, the criteria in paragraph 95(c) of PBE IPSAS 47 are met and Agency H has a compliance obligation that it satisfies over time. To recognise revenue for that compliance obligation satisfied over time, Agency H measures its progress towards complete satisfaction of its compliance obligation in accordance with paragraphs 98–104 of PBE IPSAS 47.

IE133. In the construction of a multi-unit residential complex, Agency H may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Agency H would account for each binding arrangement separately. However, depending on the nature of the construction, Agency H's performance in undertaking the initial construction work (i.e., the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its compliance obligations in each binding arrangement.

Case C – Entity has an Enforceable Right to Consideration for Performance Completed to Date, but Binding Arrangement can be Cancelled

IE134. The same facts as in Case B apply to Case C, except that in the event of a default by the NFP, either Agency H can require the NFP to perform as required under the binding arrangement or Agency H can cancel the binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the agreed price in the binding arrangement.

IE135. Notwithstanding that Agency H could cancel the binding arrangement (in which case the NFP's obligation to Agency H would be limited to transferring control of the partially completed units to Agency H and paying the penalty prescribed), Agency H has a right to consideration for performance completed to date because it could also choose to enforce its rights to full payment under the binding arrangement. The fact that Agency H may choose to cancel the binding arrangement in the event the NFP defaults on its obligations would not affect that assessment (see paragraph AG69 of PBE IPSAS 47), provided that Public Work's rights to require the NFP to continue to perform as required under the binding arrangement (i.e., pay the promised consideration) are enforceable.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

IE136. Examples 23–24 illustrate the requirements in paragraphs 98–104 of PBE IPSAS 47 on measuring progress towards complete satisfaction of a compliance obligation satisfied over time. Example 24 also illustrates the requirements in paragraph AG95 of PBE IPSAS 47 on uninstalled materials when costs incurred are not proportionate to the entity's progress in satisfying a compliance obligation.

Example 23 – Measuring Progress when Making Goods or Services Available

IE137. A local council (the Council) owns and manages public swimming pools and enters into a binding arrangement with a member of the public for one year of access to any of its pools. The member of the public has unlimited use of the pools and promises to pay an access fee of CU100 per month.

IE138. The Council determines that its promise to the member of the public is to provide a service of making the pools available for the member of the public to use as and when the member of the public wishes. This is because the extent to which the member of the public uses the pools does not affect the amount of the remaining goods and services to which the member of the public is entitled. The Council concludes that the member of the public simultaneously receives and consumes the economic benefits or service potential of the local Council's performance as it performs by making the pools available. Consequently, the Council's compliance obligation is satisfied over time in accordance with paragraph 92(a) of PBE IPSAS 47.

IE139. The Council also determines that the member of the public consumes economic benefits or service potential from the Council making the pools available throughout the year. That is, the member of the public benefits from having the pools available, regardless of whether the member of the public uses it or not. Consequently, the Council concludes that the best measure of progress towards complete satisfaction of the compliance obligation over time is an output method, specifically a time-based measure, and it recognises revenue on a straight-line basis throughout the year at CU100 per month.

Example 24 – Measuring Progress for Uninstalled Materials

IE140. In November 20X2, a government department~~of Public Works~~ (Department A) enters into a binding arrangement with another department (Department B) to refurbish a 3-storey building and install new elevators for a total consideration of CU5 million. Department A concluded that the promised refurbishment service, including the installation of elevators, is a single compliance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. Department A determines that it acts as a principal in accordance with paragraphs AG117–AG125 of PBE IPSAS 47, because it obtains control of the elevators before they are transferred to Department B.

IE141. A summary of the transaction consideration and expected costs is as follows:

	CU
Transaction consideration	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

IE142. Department A uses an input method based on costs incurred to measure its progress towards complete satisfaction of the compliance obligation. Department A assesses whether the costs incurred to procure the elevators are proportionate to the Public Work's progress in satisfying the compliance obligation, in accordance with paragraph AG95 of PBE IPSAS 47. Department B obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the compliance obligation (CU4 million). Department A is not involved in designing or manufacturing the elevators.

IE143. Department A concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of its performance. Consequently, in accordance with paragraph AG95 of PBE IPSAS 47, Department A adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction consideration. Department A recognises revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

IE144. As of December 31, 20X2, Department A observes that:

(a) Other costs incurred (excluding elevators) are CU500,000; and

(b) Performance is 20 percent complete (i.e., CU500,000 ÷ CU2,500,000).

IE145. Consequently, at December 31, 20X2, Department A recognises the following:

	CU	
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	200,000	

(A) Revenue recognised is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction consideration – CU1,500,000 costs of elevators.)

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Measurement of Revenue Transactions with a Binding Arrangement

Variable Consideration

Example 25 – Estimating Variable Consideration

IE146. ~~The Department of Public Works~~ A local government (Government L) enters into a binding arrangement with the ~~Department~~ Government Transportation Agency (Transportation) to build a bridge. The promise to transfer the bridge is a compliance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE147. In addition, upon completion of the bridge, a third party will inspect the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Government L will be entitled to an incentive bonus of CU1.5 million.

IE148. Government L determines that the consideration promised in the binding arrangement includes a variable amount and estimates the amount of consideration it is entitled to in accordance with paragraphs 113–117 of PBE IPSAS 47. In determining the transaction consideration, Government L prepares a separate estimate for each element of variable consideration to which Government L will be entitled using the estimation methods described in paragraph 116 of PBE IPSAS 47:

(a) Government L decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Government L expects to better predict the amount of consideration to which it will be entitled.

(b) Government L decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Government L expects to better predict the amount of consideration to which it will be entitled.

IE149. Government L considers the requirements in paragraphs 119–121 of PBE IPSAS 47 on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction consideration.

The Existence of a Significant Financing Component in the Binding Arrangement

IE150. Examples 26–30 illustrate the requirements in paragraphs 123–128 of PBE IPSAS 47 on the existence of a significant financing component in the binding arrangement. In addition, the following requirements are illustrated in Example 26:

(a) Paragraphs 119–121 of PBE IPSAS 47 on constraining estimates of variable consideration; and

(b) Paragraphs AG96–AG103 of PBE IPSAS 47 on sales with a right of return.

Example 26 – Significant Financing Component and Right of Return

IE151. A government entity (the Government) provides trains to a public sector subway operator (the Operator) for CU121 million that is payable 24 months after delivery. The Operator obtains control of the trains at the inception of the binding arrangement. The binding arrangement permits the Operator to return the trains within 90 days. The trains are new and the Government has no relevant historical evidence of returns or other available market evidence.

IE152. The cash price of the trains is CU100 million, which represents the amount that the Operator would pay upon delivery for the same trains provided under otherwise identical terms and conditions as at the inception of the binding arrangement. The Government's cost of the trains is CU80 million.

IE153. The Government does not recognise revenue when control of the product transfers to the Operator. This is because the existence of the right of return and the lack of relevant historical evidence means that the Government cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in accordance with paragraphs 119–121 of PBE IPSAS 47. Consequently, revenue is recognised after three months when the right of return lapses.

IE154. The binding arrangement includes a significant financing component, in accordance with paragraphs 123–125 of PBE IPSAS 47. This is evident from the difference between the amount of promised consideration of CU121 million and the cash price of CU100 million at the date that the goods are transferred to the Operator.

IE155. The binding arrangement includes an implicit interest rate of 10 percent (i.e., the interest rate that over 24 months discounts the promised consideration of CU121 million to the cash price of CU100 million). The Government evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the Government and the Operator at the inception of the binding arrangement. The following journal entries illustrate how the Government accounts for this binding arrangement in accordance with paragraphs AG96–AG103 of PBE IPSAS 47:

(a) When the trains are transferred to the Operator, in accordance with paragraph AG97 of PBE IPSAS 47:

Asset for right to recover trains to be returned	CU80 million[10]	
Inventory		

[10] This example does not consider expected costs to recover the asset.

(b) During the three-month right of return period, no interest is recognised in accordance with paragraph 128 of PBE IPSAS 47 because no binding arrangement asset or receivable has been recognised.

(c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million[11]
Revenue	
Cost of sales	CU80 million
Asset for trains to be returned	

IE156. Until the Government receives the cash payment from the Operator, interest revenue would be recognised in accordance with PBE IPSAS 41. In determining the effective interest rate in accordance with PBE IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

Example 27 – Withheld Payments on a Long-Term Binding Arrangement is not a Significant Financing Component

IE157. A government department ~~The Department of Public Works~~ (Department A) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Department A throughout the binding arrangement term of three years. The compliance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Department A' expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by the resource provider throughout the binding arrangement and paid to Department A only when the building is complete.

IE158. Department A concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Department A's performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph 125(c) of PBE IPSAS 47. The withholding of a specified percentage of each milestone payment is intended to protect the resource provider from Department A failing to adequately complete its compliance obligations under the binding arrangement.

Example 28 – Determining the Discount Rate

IE159. The Ministry of ~~Department~~ Communications (the Ministry) enters into a binding arrangement with a foreign government to provide broadband internet equipment. Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU100 million plus a five percent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU1.89 million.

Case A – Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE160. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Ministry considers paragraph 127 of PBE IPSAS 47 and observes that the five percent rate of interest in

[11] The receivable recognised would be measured in accordance with PBE IPSAS 41. This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognised at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

the binding arrangement reflects the rate that would be used in a separate financing transaction between the Ministry and the foreign government at the inception of the binding arrangement (i.e., the rate of interest of five percent in the binding arrangement reflects the credit characteristics of the foreign government).

IE161. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognised as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Ministry accounts for the receivable in accordance with PBE IPSAS 41.

Case B – Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE162. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Ministry observes that the five percent rate of interest in the binding arrangement is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the Ministry and the foreign government at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five percent does not reflect the credit characteristics of the foreign government). This suggests that the cash price is less than CU100 million.

IE163. In accordance with paragraph 127 of PBE IPSAS 47, the Ministry determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 percent interest rate that reflects the credit characteristics of the foreign government. Consequently, the Ministry determines that the transaction consideration is CU84.83 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Ministry recognises revenue and a loan receivable for that amount. The Ministry accounts for the loan receivable in accordance with PBE IPSAS 41.

Example 29 – Advance Payment and Assessment of Discount Rate

IE164. The central government will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the central government plans to sell the surplus vehicles. To achieve this objective, the central government enters into a binding arrangement with a local government to provide the surplus vehicles in two years (i.e., the compliance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU5 million in two years when the local government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The local government elects to pay CU4 million when the binding arrangement is signed.

IE165. The central government concludes that the binding arrangement contains a significant financing component because of the length of time between when the local government pays for the vehicle and when the central government transfers the vehicles to the local government, as well as the prevailing interest rates in the market.

IE166. The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the central government determines that, in accordance with paragraph 127 of PBE IPSAS 47, the rate that should be used in adjusting the promised consideration is six percent, which is the central government's incremental borrowing rate.

IE167. The following journal entries illustrate how the central government would account for the significant financing component:

(a) Recognise a binding arrangement liability for the CU4 million payment received at inception of the binding arrangement:

Cash	CU4 million
Binding arrangement liability	CU4 million

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the central government adjusts the promised amount of consideration (in accordance with paragraph 128 of PBE IPSAS 47) and builds up the binding arrangement liability by recognising interest on CU4 million at six percent for two years:

Interest expense	CU494,000[12]
Binding arrangement liability	CU494,000

(c) Recognise revenue for the transfer of the vehicles:

Binding arrangement liability	CU4,494,000
Revenue	CU4,494,000

Example 30 – Advance Payment

IE168. A private sector telecommunications company (the Telecom) has set up cellular phone towers on government-owned properties. Under the arrangement, access to the towers can only be made by appropriately skilled telecommunications specialists. The Telecom enters into a binding arrangement with a government entity that provides specialist telecommunications services (the Government Entity) to provide maintenance and repair services for three years. The Telecom purchases this support service at the time of setting up the cellular phone towers. Consideration for the service is CU300,000, and the Telecom must pay for it upfront (i.e., a monthly payment option is not available).

IE169. To determine whether there is a significant financing component in the binding arrangement, the Government Entity considers the nature of the service being offered and the purpose of the payment terms. The Government Entity charges a single upfront amount, not with the primary purpose of obtaining financing from purchasers but, instead, to better manage its resources, taking into consideration the risks associated with providing the service. Specifically, if the Telecom could pay monthly, it may change to another provider of the specialist service, leaving the Government Entity with costs for which it cannot earn revenue.

IE170. In assessing the requirements in paragraph 125(c) of PBE IPSAS 47, the Government Entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the Government Entity. The Government Entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the Government Entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the Government Entity concludes that there is not a significant financing component.

[12] CU494,000 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

Non-Cash Consideration

IE171. Example 31 illustrates the requirements in paragraphs 129–132 of PBE IPSAS 47 on non-cash consideration, as well as the requirements in paragraph 68 of PBE IPSAS 47 on identifying compliance obligations.

Example 31 – Entitlement to Non-Cash Consideration

IE172. A public broadcaster (the Broadcaster) enters into a binding arrangement with a private media company (the Media Company) to provide production services for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The Broadcaster concludes that the production services are a single compliance obligation in accordance with paragraph 68(b) of PBE IPSAS 47. This is because the Broadcaster is providing a series of distinct production services that are substantially the same and have the same pattern of transfer (the production services transfer to the Media Company over time and use the same method to measure progress—that is, a time-based measure of progress).

IE173. In exchange for the production services, the Media Company promises to provide the Broadcaster with the right to air one of the Media Company's popular sports programmes once per week of production services.

IE174. The Broadcaster measures its progress towards complete satisfaction of the compliance obligation as each week of production service is complete. To determine the transaction consideration (and the amount of revenue to be recognised), the Broadcaster first considers the fair value of the right to air the popular sports programme. However, as the right to air the programme is not typically sold by the Media Company or traded in the market, the Broadcaster concludes that it cannot reasonably estimate the fair value of the non-cash consideration. As a result, the Broadcaster measures the transaction consideration indirectly by reference to the stand-alone value of the production services promised to the Media Company.

Allocation Based on Stand-Alone Values

IE175. Examples 32–34 illustrate the requirements in paragraphs 133–143 of PBE IPSAS 47 on allocating the transaction consideration to compliance obligations. In addition, the following requirements are illustrated in these examples:

(a) Paragraph 116 of PBE IPSAS 47 on variable consideration (Example 34);

(b) Paragraphs AG107–AG109 of PBE IPSAS 47 on the allocation of a discount (Examples 32-33); and

(c) Paragraph AG182 of PBE IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licences of intellectual property (Example 34).

Example 32 – Allocation Methodology

IE176. A Ministry~~Department~~ of Defence (the Ministry) enters into a binding arrangement with another country to provide a fighter jet, specialised spare parts, and a specialised engine in exchange for CU100 million. The Ministry will satisfy the compliance obligations for the jet, spare parts, and engine at different points in time. The Ministry can provide fighter jets separately and therefore the stand-alone value is directly observable. The stand-alone values of the specialised spare parts and specialised engine are not directly observable.

IE177. Because the stand-alone values for the specialised spare parts and specialised engine are not directly observable, the Ministry must estimate them. To estimate the stand-alone values, the Ministry uses the adjusted market assessment approach for the specialised spare parts and the expected cost approach for the specialised engines. In making those estimates, the Ministry maximises the use of observable inputs (in accordance with paragraph 138 of PBE IPSAS 47). The Ministry estimates the stand-alone values as follows:

Product	Stand-alone value	Method
	CU (millions)	
Fighter jet	90	Directly observable (see paragraph 137 of PBE IPSAS 47)
Spare parts	10	Adjusted market assessment approach (see paragraph 139(a) of PBE IPSAS 47)
Specialised Engine	20	Expected cost approach (see paragraph 139(b) of PBE IPSAS 47)
Total	120	

IE178. The other country receives a discount for purchasing the bundle of goods because the sum of the stand-alone values (CU120 million) exceeds the promised consideration (CU100 million). The Ministry considers whether it has observable evidence about the compliance obligation to which the entire discount belongs (in accordance with paragraph AG108 of PBE IPSAS 47) and concludes that it does not. Consequently, in accordance with paragraphs 136 and AG107 of PBE IPSAS 47, the discount is allocated proportionately across the fighter jet, spare parts and the specialised engine. The discount, and therefore the transaction consideration, is allocated as follows:

Product	Allocated Transaction Consideration	
	CU (millions)	
Fighter jet	75	(CU90 ÷ CU120 × CU100)
Spare parts	8	(CU10 ÷ CU120 × CU100)
Engine	17	(CU20 ÷ CU120 × CU100)
Total	100	

Example 33 – Allocating a Discount

IE179. A government procurement agency (the Agency) regularly provides common-use supplies, including Supplies A, B and C individually, to government entities. The Agency establishes the following stand-alone values:

Product	Stand-alone value
	CU
Supply A	40
Supply B	55
Supply C	45

Product	Stand-alone value
	CU
Total	140

IE180. In addition, the Agency regularly provides Supplies B and C together for CU60.

Case A – Allocating a Discount to One or More Compliance Obligations

IE181. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C in exchange for CU100. The Agency will satisfy the compliance obligations for each of the supplies at different points in time.

IE182. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method (in accordance with paragraph AG107 of PBE IPSAS 47). However, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of PBE IPSAS 47.

IE183. If the Agency transfers control of Supplies B and C at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single compliance obligation. That is, the Agency could allocate CU60 of the transaction consideration to the single compliance obligation and recognise revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE184. If the binding arrangement requires the Agency to transfer control of Supplies B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Supply B (stand-alone value of CU55) and Supply C (stand-alone value of CU45) as follows:

Product	Allocated transaction consideration	
	CU	
Supply B	33	(CU55 ÷ CU100 total stand-alone value × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone value × CU60)
Total	60	

Case B – Residual Approach is Appropriate

IE185. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Supply D. Total consideration in the binding arrangement is CU130. The stand-alone value for Supply D is highly variable (see paragraph 139(c) of PBE IPSAS 47) because the Agency provides Supply D to different purchasers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone value of Supply D using the residual approach.

IE186. Before estimating the stand-alone value of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other compliance obligations in the binding arrangement in accordance with paragraphs AG108–AG109 of PBE IPSAS 47.

IE187. As in Case A, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of PBE IPSAS 47. Using the residual approach, the Agency estimates the stand-alone value of Supply D to be CU30 as follows:

Product	Stand-alone value	Method
	CU	
Supply A	40	Directly observable (see paragraph 137 of PBE IPSAS 47)
Supplies B and C	60	Directly observable with discount (see paragraph AG108 of PBE IPSAS 47)
Supply D	30	Residual approach (see paragraph 139(c) of PBE IPSAS 47)
Total	130	

IE188. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 133 of PBE IPSAS 47 and the requirements in paragraph 138 of PBE IPSAS 47.

Case C – Residual Approach is Inappropriate

IE189. The same facts as in Case B apply to Case C except the transaction consideration is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone value of CU5 for Supply D (CU105 transaction consideration less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its compliance obligation to transfer Supply D, because CU5 does not approximate the stand-alone value of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone value of Supply D using another suitable method. The Agency allocates the transaction consideration of CU105 to Supplies A, B, C and D using the relative stand-alone values of those products in accordance with paragraphs 133–140 of PBE IPSAS 47.

Example 34 – Allocation of Variable Consideration

IE190. A university (the University) enters into a binding arrangement with a pharmaceutical manufacturing company (the Company) for two intellectual property licenses for two drug formulations (Formulation X and Y), developed by the University's research lab. The University determines that the formulations represent two compliance obligations each satisfied at a point in time. The stand-alone values of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

Case A – Variable Consideration Allocated Entirely to One Compliance Obligation

IE191. The price stated in the binding arrangement for Formulation X is a fixed amount of CU800,000 and for Formulation Y, the consideration is three percent of the Company's future sales of the medication developed from Formulation Y. For purposes of allocation, the University estimates its sales-based royalties (i.e., the variable consideration) to be CU1,000,000, in accordance with paragraph 116 of PBE IPSAS 47.

IE192. To allocate the transaction consideration, the University considers the criteria in paragraph 142 of PBE IPSAS 47 and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Formulation Y. The University concludes that the criteria in paragraph 142 of PBE IPSAS 47 are met for the following reasons:

(a) The variable payment relates specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).

(b) Allocating the expected royalty amount of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 133 of PBE IPSAS 47. This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone value of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone value of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 143 of PBE IPSAS 47. This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating to Formulation Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 133 of PBE IPSAS 47.

IE193. The University transfers Formulation Y at the inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognise revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG180 of PBE IPSAS 47, the University recognises revenue for the sales-based royalty when those subsequent sales occur.

IE194. When Formulation X is transferred, the University recognises as revenue the CU800,000 allocated to Formulation X.

Case B – Variable Consideration Allocated on the Basis of Stand-Alone Values

IE195. The price stated in the binding arrangement for Formulation X is a fixed amount of CU300,000 and for Formulation Y the consideration is five percent of the Company's future sales of medication developed from Formulation Y. The University's estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500,000 in accordance with paragraph 116 of PBE IPSAS 47.

IE196. To allocate the transaction consideration, the University applies the criteria in paragraph 142 of PBE IPSAS 47 to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Formulation Y. In applying the criteria, the University concludes that even though the variable payments relate specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y), allocating the variable consideration entirely to Formulation Y would be inconsistent with the principle for allocating the transaction consideration. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction consideration on the basis of the stand-alone values of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 136–140 of PBE IPSAS 47.

IE197. The University allocates the transaction consideration of CU300,000 to Formulations X and Y on the basis of relative stand-alone values of CU800,000 and CU1,000,000, respectively. The University also allocates the consideration related to the sales-based royalty on a relative stand-alone value basis. However, in accordance with paragraph AG180 of PBE IPSAS 47, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognise revenue until the later of the following events: the subsequent sales occur or the compliance obligation is satisfied (or partially satisfied).

IE198. Formulation Y is transferred to the Company at the inception of the binding arrangement and Formulation X is transferred three months later. When Formulation Y is transferred, the University recognises as revenue the CU167,000 (CU1,000,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation Y. When Formulation X is transferred, the University recognises as revenue the CU133,000 (CU800,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation X.

IE199. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG180 of PBE IPSAS 47, the University recognises as revenue the CU111,000 (CU1,000,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied compliance obligation). The University recognises a binding arrangement liability for the CU89,000 (CU800,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation X. This is because, although the subsequent sale by the Company has occurred, the compliance obligation to which the royalty has been allocated is not satisfied until Formulation X is transferred three months later.

Multi-Party Arrangements and the Determination of Stand-Alone Value

IE200. Example 35 illustrates the application of paragraph AG29 of PBE IPSAS 47 on assessing binding arrangements which include the provision of goods or services to third-party beneficiaries and paragraph AG110 of PBE IPSAS 47 on the determination of the stand-alone value of these goods or services.

Example 35 – Provision of Vaccines to Third-Party Beneficiaries

Case A – Binding Arrangement Includes a Compliance Obligation to Transfer Goods or Services to Another Party

IE201. A health clinic (the Clinic) receives CU100,000 from the government to provide free vaccinations in the local community. The government requires the Clinic to provide 150 doses of vaccine A, which is a vaccine that the Clinic has previously provided for a stand-alone value of CU500 per dose. In addition, the Clinic is also required to provide 350 doses of vaccine B, a new vaccine with limited information regarding observable prices.

IE202. The Clinic concludes that this binding arrangement includes two compliance obligations to transfer two distinct goods to another party, specifically 150 doses of vaccine A and 350 doses of vaccine B. This is because the government, which is acting as the purchaser, is paying the Clinic to provide vaccination services to local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG29 of PBE IPSAS 47.

IE203. In determining the stand-alone value for each dose of the vaccines, the Clinic estimates that each dose of vaccine A has a stand-alone value of CU500, based on the historical stand-alone value for that vaccine. For vaccine B, the Clinic applies paragraph AG110 of PBE IPSAS 47 and estimates that the stand-alone value of each dose is CU100, based on the expected cost approach for the Clinic to acquire each vaccination, as well as the labour costs for the administration of vaccines.

IE204. Using the stand-alone value of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction consideration to the two vaccines:

Total Stand-Alone Value of All Compliance Obligations:

Vaccine A: CU500 stand-alone value × 150 doses = CU75,000

Vaccine B: CU100 stand-alone value (based on replacement cost + labour) × 350 doses = CU35,000

Total Stand-Alone Value: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Consideration of CU100,000 to the Two Vaccines:

Vaccine A: CU100,000 × CU75,000 ÷ CU110,000 = CU68,182 or CU454.55 per dose

Vaccine B: CU100,000 × CU35,000 ÷ CU110,000 = CU31,818 or CU90.91 per dose

IE205. Based on the above, the Clinic would recognise compliance obligations for Vaccine A (CU68,182) and Vaccine B (CU31,919) on receipt of the CU100,000 and then recognise revenue using the above allocated transaction consideration and measure its progress in satisfying its compliance obligations based on the number of vaccines A or B administered.

Case A1 – Transaction without a Binding Arrangement Includes Multiple Obligation to Transfer Goods or Services to Another Party

IE205.1. The same facts as in Case A apply to Case A1, except that entity determined that there is no binding arrangement. After considering paragraph 26 - 27, on receipt of the CU100,000, the entity would recognise a liability. The allocation of the transaction consideration to the two vaccines will be consistently applied to transactions without binding arrangement as demonstrated in paragraphs IE203–IE205 i.e. CU68,182 allocated to Vaccine A and CU31,818 allocated to Vaccine B. This aligns with Implementation Guidance paragraph C3 which indicates that the same transaction price allocation methods outlined for binding arrangements may also be applied to transactions without binding arrangements.

Commented [LV28]: Note to the Board Members (Q17)
The amendment to the illustrative example in the ED is due to Board decisions in Aug 2024 which was to expand on Illustrative Example 35 in IPSAS 47 to include a scenario where the transaction is without a binding arrangement.
Example 35 has been expanded to include a scenario where the transaction is without a binding arrangement. This is to demonstrate that binding arrangement requirements, for allocation of the transaction price as a method to proportion and recognise revenue across multiple obligations, can also be applied in transactions without binding arrangements.

Question 17 to Board members

Refer to paragraph 24 in agenda item 7.2.

Does the Board agree with the scenario detail of Case A1 to Illustrative example 35 in paragraph IE205.1?

Case B – Binding Arrangement Includes a Compliance Obligation to Use Resources for Goods or Services Internally

IE206. Similar to Case A, the Clinic receives CU100,000 from the government. However, in this case, the funding was provided to the Clinic for the purposes of running their vaccination programme in the local community. The terms of the binding arrangement specify that the Clinic has discretion to spend the funds on expenditures that are directly related to the vaccination programme and may include: an allocation of salaries paid to staff who work on vaccination-related activities such as the administration of the vaccines or the development of educational materials regarding vaccines; an allocation of rent for premises used to conduct these vaccination-related activities; and the acquisition cost of vaccinations themselves.

IE207. The Clinic considers the terms and conditions of the binding arrangement and concludes that while the arrangement includes third-party beneficiaries in accordance with AG29 of PBE IPSAS 47, its compliance

obligation is to use resources internally for goods or services to run its vaccination programme. This is because the binding arrangement does not specify that the CU100,000 is restricted to fund the provision of vaccines to local individuals (i.e., third-party beneficiaries). Based on its assessment, the Clinic concludes that the compliance obligation is satisfied over time as eligible expenditures are incurred because this measure of progress best depicts the entity's performance to satisfy this compliance obligation. The Clinic recognises revenue as eligible expenditures are incurred.

Principal versus Agent Considerations

IE208. Examples 36–38 illustrate the requirements in paragraphs AG117–AG125 of PBE IPSAS 47 on principal versus agent considerations.

Example 36 – Promise to Provide Goods or Services (Entity is a Principal)

IE209. A shared maintenance services entity (the Entity) enters into a binding arrangement with a government department ~~the Department of Social Welfare~~ (the Department) to provide office maintenance services on the Department's properties. The Entity and the Department define and agree on the scope of the maintenance services and negotiate the price. The Entity is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Entity invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE210. The Entity regularly engages third-party service providers to provide maintenance services to its purchasers. When the Entity obtains a binding arrangement from a purchaser, the Entity enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for the Department. The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in the Entity's binding arrangements with purchasers. However, the Entity is obligated to pay the service provider even if the Department fails to pay.

IE211. To determine whether the Entity is a principal or an agent, the Entity identifies the specified good or service to be provided to the Department and assesses whether it controls that good or service before the good or service is transferred to the Department.

IE212. The Entity observes that the specified services to be provided to the Department are the office maintenance services for which the Department entered into a binding arrangement, and that no other goods or services are promised to the Department. While the Entity obtains a right to office maintenance services from the service provider after entering into the binding arrangement with the Department, that right is not transferred to the Department. That is, the Entity retains the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, that right. For example, the Entity can decide whether to direct the service provider to provide the office maintenance services for the Department, or for another purchaser, or at its own facilities. The Department does not have a right to direct the service provider to perform services that the Entity has not agreed to provide. Therefore, the right to office maintenance services obtained by the Entity from the service provider is not the specified good or service in its binding arrangement with the Department.

IE213. The Entity concludes that it controls the specified services before they are provided to the Department. The Entity obtains control of a right to office maintenance services after entering into the binding arrangement with the Department but before those services are provided to the Department. The terms of the Entity's binding arrangement with the service provider give the Entity the ability to direct the service provider to provide the specified services on the Entity's behalf (see paragraph AG120(b)). In addition, the Entity

concludes that the following indicators in paragraph AG123 of PBE IPSAS 47 provide further evidence that the Entity controls the office maintenance services before they are provided to the Department:

(a) The Entity is primarily responsible for satisfying the promise to provide office maintenance services. Although the Entity has hired a service provider to perform the services promised to the Department, it is the Entity itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Entity is responsible for satisfying the promise in the binding arrangement, regardless of whether the Entity performs the services itself or engages a third-party service provider to perform the services).

(b) The Entity has discretion in setting the price for the services to the Department.

IE214. The Entity observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with the Department. Thus, the Entity has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Entity concludes that it controls the office maintenance services before they are provided to the Department on the basis of the evidence in paragraph IE213.

IE215. Thus, the Entity is a principal in the transaction and recognises revenue in the amount of consideration to which it is entitled from the Department in exchange for the office maintenance services.

Example 37 – Promise to Provide Goods or Services (Entity is a Principal)

IE216. A not-for-profit entity (NFP A) ~~local government~~ negotiates with Entity B (Entity B) ~~hospitals~~ to purchase ~~vaccines~~ goods for individual citizens at reduced rates compared with the price of the goods provided directly by Entity B to the individual citizens. NFP A agrees to buy a specific quantity of the goods and must pay for the goods regardless of whether it is able to use them. The reduced rate paid by NFP A for each unit of the goods purchased is negotiated and agreed in advance.

IE217. NFP A determines the prices at which the goods will be provided to the individual citizens. NFP A provides the goods and collects the consideration from citizens when the goods are purchased.

IE218. NFP A also assists the individual citizens in resolving complaints with the service provided by Entity B. However, Entity B is responsible for satisfying obligations associated with the goods, including remedies to a citizen for dissatisfaction with the goods.

IE219. To determine whether NFP A's compliance obligation is to provide the specified goods or services itself (i.e., NFP A is a principal) or to arrange for those goods or services to be provided by another party (i.e., NFP A is an agent), NFP A identifies the specified good or service to be provided to the individual citizens and assesses whether it controls that good or service before the good or service is transferred to the citizens.

IE220. NFP A concludes that, with each unit of the goods that it commits itself to purchase from Entity B, it obtains control of a right to the unit that NFP A then transfers to an individual citizen, who in turn is one of NFP A's purchasers (see paragraph AG120(a)). Consequently, NFP A determines that the specified good or service to be provided to the individual citizen is that right to a unit of the goods that NFP A controls. NFP A observes that no other goods or services are promised in this arrangement to the individual citizens.

IE221. NFP A controls the right to each unit of the goods before it transfers that specified right to one of its citizens because NFP A has the ability to direct the use of that right by deciding whether to use the unit to fulfil a binding arrangement with a citizen and, if so, which binding arrangement it will fulfil. NFP A also has the ability to obtain the remaining benefits or service potential from that right by either reselling the goods and obtaining all of the proceeds from the sale or, alternatively, providing the goods to another individual.

IE222. The indicators in paragraphs AG123(b)–AG123(c) of PBE IPSAS 47 also provide relevant evidence that NFP A controls each specified right (to a unit of goods) before it is transferred to the citizen. NFP A has inventory risk with respect to the unit of goods because NFP A committed itself to obtaining the unit from Entity B before entering into a binding arrangement with a citizen to purchase the unit. This is because NFP A is obligated to pay Entity B for that right regardless of whether it is able to obtain a purchaser to redirect the goods to or whether it can obtain a favourable price for the goods. NFP A also establishes the price that the individual citizen will pay for the specified goods.

IE223. Thus, NFP A concludes that it is a principal in the transactions with the individual citizens. NFP A recognises revenue in the gross amount of consideration to which it is entitled in exchange for the goods transferred to the citizens.

Example 38 – Arranging for the Provision of Goods or Services (Entity is an Agent)

IE224. A Government ~~The Department of~~ Health Agency (Agency H) provides vouchers that entitle qualifying individuals (the patients) to subsidised medical ~~vaccination~~ services at specified clinics. The sales price of the voucher provides the patient with a significant discount (i.e., a subsidy) when compared with the normal prices of the medical services (for example, a patient pays CU10 for a voucher that entitles the patient to medical services at a clinic that would otherwise cost CU20). Agency H does not purchase or commit itself to purchasing vouchers in advance of the sale of a voucher to a patient; instead, it purchases vouchers only as they are requested by the patients. Agency H provides the vouchers through its website and the vouchers are non-refundable.

IE225. Agency H and the clinics jointly determine the prices at which the vouchers will be provided to patients. Under the terms of its binding arrangements with the clinics, Agency H is entitled to 30 percent of the voucher price when it provides the voucher.

IE226. Agency H also assists the patients in resolving complaints about the medical services at the clinics and has a patient satisfaction programme. However, the clinics are responsible for satisfying obligations associated with the voucher, including remedies to a patient for dissatisfaction with the medical services.

IE227. To determine whether Agency H is a principal or an agent, Agency H identifies the specified good or service to be provided to the patient and assesses whether it controls the specified good or service before that good or service is transferred to the patient.

IE228. A patient obtains a voucher for the clinic that it selects. Agency H does not engage the clinics to provide medical services to patients on Agency H's behalf as described in the indicator in paragraph AG123(a) of PBE IPSAS 47. Therefore, Agency H observes that the specified service to be provided to the patient is the right to medical services(in the form of a voucher) at a specified clinic or clinics, which the patient purchases and then can use itself or transfer to another person. Agency H also observes that no other goods or services (other than the vouchers) are promised to the patients.

IE229. Agency H concludes that it does not control the voucher (right to medical services) at any time. In reaching this conclusion, Agency H principally considers the following:

(a) The vouchers are created only at the time that they are transferred to the patients and, thus, do not exist before that transfer. Therefore, Agency H does not at any time have the ability to direct the use of the vouchers or obtain substantially all of the remaining economic benefits or service potential from the vouchers, before they are transferred to patients.

(b) Agency H neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. Agency H also has no responsibility to accept any returned vouchers. Therefore, Agency H

does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG123(b) of PBE IPSAS 47.

IE230. Thus, Agency H concludes that it is an agent with respect to the vouchers. Agency H recognises revenue in the net amount of consideration to which Agency H will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' medical services, which is the 30 percent fee it is entitled to upon the sale of each voucher.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

IE231. Example 39 illustrates the requirements in paragraphs AG135–AG138 of PBE IPSAS 47 on non-refundable upfront fees for a transfer of goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary).

Example 39 – Non-refundable Upfront Fee

IE232. A council swimming pool (the Pool) enters into a binding arrangement with an individual to provide one year of access to the pools. The Pool's binding arrangements have standard terms that are the same for all individuals. The binding arrangement requires the individual to pay an upfront administration fee to set up the individual on the Pool's systems. The fee is a nominal amount and is non-refundable. The individual can renew the binding arrangement each year without paying an additional fee.

IE233. The Pool's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a separate compliance obligation.

IE234. The Pool concludes that the renewal option does not provide a material right to the individual that it would not receive without entering into that binding arrangement (see paragraph AG127 of PBE IPSAS 47). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Pool determines the transaction consideration, which includes the non-refundable upfront fee, and recognises revenue for the transaction processing services as those services are provided in accordance with paragraph AG136 of PBE IPSAS 47.

Other Assets from Revenue Transactions with Binding Arrangement Costs

IE235. Example 40 illustrates the requirements in paragraphs 152–155 of PBE IPSAS 47 on costs to fulfil a binding arrangement and paragraphs 156–161 of PBE IPSAS 47 on amortisation and impairment of binding arrangement costs.

Example 40 – Costs that Give Rise to an Asset

IE236. A shared services agency (the Agency) enters into a binding arrangement for a service to manage a government department's information technology data centre for five years. The binding arrangement is renewable for subsequent one-year periods. The average term is seven years. Before providing the services, the Agency designs and builds a technology platform for the Agency's internal use that interfaces with the government's systems. That platform is not transferred to the government but will be used to deliver services to the government.

IE237. The initial costs incurred to set up the technology platform are as follows:

	CU
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

IE238. The initial setup costs relate primarily to activities to fulfil the binding arrangement but do not transfer goods or services to the government. The Agency accounts for the initial setup costs as follows:

(a) Hardware costs—accounted for in accordance with PBE IPSAS 17.

(b) Software costs—accounted for in accordance with PBE IPSAS 31.

(c) Costs of the design, migration and testing of the data centre—assessed in accordance with paragraph 152 of PBE IPSAS 47 to determine whether an asset can be recognised for the costs to fulfil the binding arrangement. Any resulting asset would be amortised on a systematic basis over the seven-year period (i.e., the five-year term of the binding arrangement and two anticipated one-year renewal periods) that the Agency expects to provide services related to the data centre.

IE239. In addition to the initial costs to set up the technology platform, the Agency also assigns two employees who are primarily responsible for providing the service to the government. Although the costs for these two employees are incurred as part of providing the service to the government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph 152(b) of PBE IPSAS 47). Therefore, the costs do not meet the criteria in paragraph 152 of PBE IPSAS 47 and cannot be recognised as an asset using PBE IPSAS 47. In accordance with paragraph 155, the Agency recognises the payroll expense for these two employees when incurred.

Presentation

IE240. Examples 41–43 illustrate the requirements in paragraphs 162–166 of PBE IPSAS 47 on the presentation of binding arrangement balances, and the consequences of applying paragraphs 119–121 on constraining estimates of variable consideration, paragraphs 123–128 on significant financing components, and AG96–AG103 on the sale of a right of return.

Example 41 – Binding Arrangement Liability and Receivable

Case A – Cancellable Binding Arrangement

IE241. On 1 January 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on 31 March 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance. The government entity pays the consideration on 1 March 20X9. The Agency transfers the product on 31 March 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency receives cash of CU1,000 on 1 March 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency satisfies the compliance obligation on 31 March 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

Case B – Non-Cancellable Binding Arrangement

IE242. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable and the advance transfer on 31 January 20X9 is required regardless of whether the Agency has started to satisfy its compliance obligation. The following journal entries illustrate how the entity accounts for the binding arrangement:

(a) The amount of consideration is due on 31 January 20X9 (which is when the Agency recognises a receivable because it has an unconditional and enforceable right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency receives the cash on 1 March 20X9:

Cash	CU1,000	
Receivable		CU1,000

(c) The Agency satisfies the compliance obligation on 31 March 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE243. If the Agency issued the invoice before 31 January 20X9 (the due date of the consideration), the Agency would not present the Receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

Example 42 – Binding Arrangement Asset Recognised for the Entity's Performance

IE244. On 1 January 20X8, a government shared services agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a government department (the Department) in exchange for CU1,000,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000,000 is due only after the Agency has transferred both the software and configuration services to the Department. Consequently, the Agency does not have a right to consideration that is unconditional (a receivable) until the software is transferred to the Department and configured.

IE245. The Agency identifies the promises to transfer the software and complete the configuration as separate compliance obligations and allocates CU400,000 to the compliance obligation to transfer the software and CU600,000 to the compliance obligation to complete the configuration on the basis of their relative stand-alone values. The Agency recognises revenue for each respective compliance obligation when control of the product transfers to the Department.

IE246. The Agency satisfies the compliance obligation to transfer the software:

Binding Arrangement Asset	CU400,000	
Revenue		CU400,000

IE247. The Agency satisfies the compliance obligation to configure the software and to recognise the unconditional right to consideration:

Receivable	CU1,000,000	
Binding Arrangement Asset		CU400,000
Revenue		CU600,000

Example 43 – Receivable Recognised for the Entity's Performance

IE248. A hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on 1 January 20X9 to perform medical examinations for inmates for CU150 per examination. If Correctional Services requires more than 10,000 examinations to be performed in a calendar year, the binding arrangement indicates that the price per examination is retrospectively reduced to CU125 per product.

IE249. Consideration is due when the examinations are performed. Therefore, the Hospital has an unconditional right to consideration (i.e., a receivable) for CU150 per examination until the retrospective price reduction applies (i.e., after 10,000 examinations are completed).

IE250. In determining the transaction consideration, the Hospital concludes at the inception of the binding arrangement that Correctional Services will meet the 10,000-examination threshold and therefore estimates that the transaction consideration is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognises the following:

Receivable	CU15,000[13]	
Revenue		CU12,500[14]
Refund Liability (Binding Arrangement Liability)		CU2,500

IE251. The refund liability (see paragraph 118 of PBE IPSAS 47) represents a refund of CU25 per examination, which is expected to be provided to Correctional Services for the volume-based rebate (i.e., the difference between the CU150 price stated in the binding arrangement that the Hospital has an unconditional right to receive and the CU125 estimated transaction consideration).

Disclosure

IE252. Examples 44–50 illustrate the requirements in paragraphs 167–193 of PBE IPSAS 47 on disclosures. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 175–176 of PBE IPSAS 47 on services in-kind (Examples 44–45);

(b) Paragraphs 179–180 of PBE IPSAS 47 on the disaggregation of revenue disclosure (Example 47);

(c) Paragraphs 185–187 of PBE IPSAS 47 for the disclosure of transaction consideration allocated to the remaining compliance obligations (Examples 48–49);

(d) Paragraph 120 of PBE IPSAS 47 on constraining estimates of variable consideration (Example 48);

(e) Paragraph AG90 of PBE IPSAS 47 on methods for measuring progress towards complete satisfaction of a compliance obligation (Example 48); and

[13] CU150 per examinations × 100 examinations

[14] CU125 transaction consideration per examinations × 100 examinations

(f) Paragraph 171 of PBE IPSAS 47 for situations where an entity was compelled by legislation or other governmental policy decisions to enter into a binding arrangement with compliance obligations regardless of the purchaser's ability to pay for the goods or services (Example 50).

Example 44 – Disclosure of Services In-kind not Recognised

IE253. A hospital's accounting policies are to recognise voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organised programme. The principal aim of the programme is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education programme. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.

IE254. The hospital analyses the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer and that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognise the services in-kind provided by the volunteers. In accordance with paragraphs 175–176 of PBE IPSAS 47, the hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 45 – Disclosures Made in the Financial Statements of Government A

IE255. For the year ended 31 December 20X2, Government A prepares and presents financial statements prepared in accordance with PBE Standards ~~for the first time~~. It makes the following disclosures in its financial statements:

Statement of Comprehensive Revenue and Expenses		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Transactions without Binding Arrangements		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		

Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		
Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers Receivable from Other Governments (note 7)	X	X
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities Recognised Under Transfer Arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Transactions without Binding Arrangements

1. Assets and revenue arising from taxation transactions are recognised as revenue from transactions without binding arrangements in accordance with the requirements in paragraphs 18–55 of PBE IPSAS 47. ~~However, the Government takes advantage of the transitional provisions in IPSAS 33 in respect of income taxes and estate taxes.~~

~~Apart from income taxes and estate taxes,~~ Assets and revenue arising from taxation transactions are recognised in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. ~~Income taxes and e~~Estate taxes are recognised in the period in which payment for taxation is received (see notes 6 and 9).

Commented [LV29]: Note to Board Members (Q18)
The IPSASB example contained a reference to IPSAS 33 *First-time Adoption of Accrual Basis IPSASs* transitional provisions. IPSAS 33 does not form part of PBE Standards.
The example has been updated to remove the IPSAS 33 and transitional provision references and paragraphs.

2. Assets and revenue arising from transfer transactions are recognised in the period in which the rights in a transfer arrangement are enforceable, except for some services in-kind. The Government recognises only those services in-kind that are received as part of an organised programme and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognised.

3. Where a transfer is subject to an enforceable obligation that, if unsatisfied, requires the return of the transferred resources, the Government recognises a liability until the requirements are satisfied.

Basis of Measurement of Major Classes of Revenue Transactions

Taxes

4. Income tax revenue is measured by ~~at the nominal value of cash and cash equivalents, received during the reporting period. The Government is currently developing~~ a statistical model for measuring income tax revenue on an accrual basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. ~~The Government anticipates that the model will enable it to reliably measure income tax revenue on an accrual basis for the reporting period ended 31 December 20X4. The Government does not recognise any amount in respect of income taxes receivable.~~

5. Assets and revenue accruing from goods and services tax are initially measured at the transaction consideration of assets accruing to the Government during the reporting period, principally cash and cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the Government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

   Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at 31 December 20X2, less a provision for bad debts.

6. An estate tax of 40 percent is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the transaction consideration as at the acquisition date of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognised as a consequence of a transfer are measured at the transaction consideration of the assets recognised as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their transaction consideration, which is determined by reference to observable market data or by independent appraisal by a member of the valuation profession. Receivables are recognised when the entity has an enforceable right in a transfer arrangement but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. [Not used]~~The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of IPSAS 33, to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn~~

~~income. The Government estimates that it will be able to reliably measure income tax on an accrual basis using the model for the reporting period ending 31 December 31, 20X4~~.

9. In respect of estate taxes, due to current high levels of non-compliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The Government therefore recognises estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognised in Respect of Transfers

10. At 31 December 20X2, the Government recognised a liability of CUXX,000 related to a transfer to build a public hospital. As at 31 December the Government had received a cash payment; however, construction of the hospital had not commenced, although tenders for construction were called for on 30 November 20X2.

Assets Subject to Enforceable Obligations

11. Land with a fair value of CUXX,000 was received as part of a binding arrangement in 20X2. The binding arrangement included a compliance obligation which requires the entity to use the land for public health purposes and cannot be sold for 50 years.

12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government. The painting was received as part of an arrangement that included an enforceable obligation (but did not include an enforceable right). Under the agreement, the entity cannot sell the painting for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognise these assets when control passes to them, usually on receipt of the resources, either as cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.

14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on the condition that it will be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the Government received medical services in-kind from medical practitioners as part of the medical profession's organised volunteer programme. These services in-kind are recognised as revenue and expenses in the statement of comprehensive revenue and expense at their fair value, as determined by reference to the medical profession's published schedule of fees.

    (a) Hospitals, schools, and art galleries controlled by the Government also received support from volunteers as part of organised programmes for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured, as there are no equivalent paid positions available in the local market and, in the absence of volunteers, the services would not be

provided. The Government does not recognise these services in the statements of financial position or comprehensive revenue and expense.

Question 18 to Board members

Refer to paragraphs 25 - 26 in agenda item 7.2.

a) Does the Board agree The Illustrative Example 45 in paragraph IE255 should be retained?

b) If so agreed, do Board members also accept the changes made, including those associated with the removal of references to IPSAS 33 requirements and its transitional provisions, while retaining the remaining illustrative disclosures in this example?

Example 46 – Disclosure of a Transfer Subject to Appropriations

IE256. The facts are the same as in Case A of Example 7. The local government does not recognise an asset for the CU5 million to be transferred in 20X3 as at 31 December 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of PBE IPSAS 19.

IE257. The local government concludes that the inflow of economic benefits is probable because the first payment of CU10 million was received in 20X2. Consequentially, the local government makes the following disclosure in its financial statements for the reporting period ended 31 December 20X2:

On 15 March 20X2, the local government entered into a binding arrangement with the central government to receive CU15 million in total (CU10 million in 20X2 and CU5 million in 20X3). The binding arrangement requires the funds to be used to reduce air pollution. The binding arrangement made it clear that the transfer was subject to the completion of the appropriation process, and that approval was not certain and that funding could be reduced. The local government has not recognised an asset in respect of the CU5 million to be received in 20X3 because, as at 31 December 20X2, the appropriation process for this amount had not been completed and therefore the local government does not have an enforceable right to the funds.

Example 47 – Disaggregation of Revenue—Quantitative Disclosure

IE258. ~~A State Government reports the following segments: emergency services, public transit and energy, in accordance with IPSAS 18, *Segment Reporting*~~When a Local Government prepares its stakeholder presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods or services transferred at a point in time or services transferred over time).

~~IE259.~~ The Local Government determines that the categories used in the stakeholder presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 179 of IPSAS 47, which is to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. ~~The following table illustrates the disaggregation disclosure by primary geographical market, major product or service line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the emergency services, public transit and energy segments, in accordance with paragraph 180 of IPSAS 47.~~

Commented [LV30]: Note to Board Members
The IPSASB example contained a reference to IPSAS 18 *Segment Reporting*, which does not form part of PBE Standards. The example has been updated to remove the IPSAS 18 reference and related segment information, including an illustrative table that reconciled revenue segment information with the disclosures by nature, amount, timing, and uncertainty of revenue cash flow.

Segments	Emergency Services	Public Transit	Energy	Total
	CU (million)	CU (million)	CU (million)	CU (million)
Primary geographical markets				
Region A	990	2,250	4,000	7,240
Region B	300	1,010	1,000	2,310
Region C	700	–	1,250	1,950
	1,990	3,260	6,250	11,500
Major goods/service lines				
Healthcare services – clinic	600	–	–	600
Healthcare services – hospital	990	–	–	990
Medical supplies	400	–	–	400
Public transit – bus	–	500	–	500
Public transit – rail	–	2,760	–	2,760
Solar panels	–	–	1,000	1,000
Power plant	–	–	5,250	5,250
	1,990	3,260	6,250	11,500
Timing of revenue recognition				
Goods transferred at a point in time	1,000	3,260	–	4,260
Services transferred over time	990	–	6,250	7,240
	1,990	3,260	6,250	11,500

Example 48 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligations

IE260. On 30 June 20X7, a centralised training agency (the Agency) enters into three binding arrangements (Binding Arrangements A, B and C) with a government department (the Department) to provide training services. Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 185–187 of PBE IPSAS 47 in determining the information in each binding arrangement to be included in the disclosure of the transaction consideration allocated to the remaining compliance obligations at 31 December 20X7.

Binding Arrangement A

IE261. Training services are to be provided over the next two years, typically at least once per month. For services provided, the Department pays an hourly rate of CU25.

IE262. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the resource provider in the amount that corresponds directly with the value of the Agency's performance

completed to date in accordance with paragraph AG90 of PBE IPSAS 47. Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 186(b) of PBE IPSAS 47.

Binding Arrangement B

IE263. Training and onboarding services are to be provided as and when needed with a maximum of four visits per month over the next two years. The Department pays a fixed price of CU400 per month for both services. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE264. The Agency discloses the amount of the transaction consideration that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognise the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	**20X9**	**Total**
	CU	**CU**	**CU**
Revenue expected to be recognised on this binding arrangement as of 31 December 20X7	4,800[15]	2,400[16]	7,200

Binding Arrangement C

IE265. Training services are to be provided as and when needed over the next two years. The Department pays a fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the Department's employees (i.e., a performance bonus). The Agency estimates that it will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 120 of PBE IPSAS 47, the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE266. The Agency discloses the amount of the transaction consideration that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognise the amount as revenue. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

[15] CU4,800 = CU400 × 12 months.

[16] CU2,400 = CU400 × 6 months

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this binding arrangement as of 31 December 20X7	1,575[17]	788[18]	2,363

IE267. In addition, in accordance with paragraph 187 of PBE IPSAS 47, the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction consideration. That part of the performance bonus was excluded from the transaction consideration in accordance with the requirements for constraining estimates of variable consideration in paragraphs 119–121.

Example 49 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligation Qualitative Disclosure

IE268. On 1 January 20X2, a government department ~~the Department of Public Works~~ (the Department) enters into a binding arrangement with another department to refurbish a building for a fixed consideration of CU10 million. The refurbishment of the building is considered a single compliance obligation that the Department satisfies over time. As of 31 December 20X2, the Department has recognised CU3.2 million of revenue. the Department estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE269. At 31 December 20X2, the Department discloses the amount of the transaction consideration that has not yet been recognised as revenue in its disclosure of the transaction consideration allocated to the remaining unsatisfied portion of the compliance obligation. The Department also discloses an explanation of when it expects to recognise that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining compliance obligation or by providing a qualitative explanation. Because the Department is uncertain about the timing of revenue recognition, the Department discloses this information qualitatively as follows, in accordance with paragraph 185 of PBE IPSAS 47:

As of 31 December 20X2, the aggregate amount of the transaction consideration allocated to the remaining compliance obligation is CU6.8 million and the entity will recognise this revenue as the building is completed, which is expected to occur over the next 12–18 months.

Example 50 – Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions

IE270. A government-owned ~~power~~water utility operates the water infrastructure ~~number of power plants~~ and provides water to residential households. The water sector in the jurisdiction is highly regulated, and under its Water Act, all utility companies which provide water to residential households are required to provide water regardless of the households' ability to pay. Typically, a household would apply to the utility to connect

Commented [LV31]: Note to Board Members
The IPSASB example originally featured a power utility but has been updated to a water utility. This change reflects that, unlike power utilities, New Zealand water utilities must provide water regardless of a household's ability to pay.

[17] Transaction consideration = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognised evenly over 24 months at CU1,575 per year.

[18] CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

water to their location. As part of the connection process, the household would enter into a water purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

IE271. The water purchase agreement is considered a binding arrangement with compliance obligations, as the utility has agreed to provide a distinct good (water) to a purchaser (the household) in exchange for the consideration. Given the regulations, the utility may not deny the initial connection nor suspend the provision of water even if a household is in default – i.e., the utility is compelled to satisfy the compliance obligation to provide water regardless of a household's ability to pay.

IE272. During the year, the utility provided water that would have resulted in total revenue of CU100 million if revenue had been recognised at the utility's standard rates for 100 percent of the water provided. However, throughout the year, a number of households were unable to pay their amounts owed to the utility in full.

IE273. The utility applies paragraph AG37 of PBE IPSAS 47, and based on historical data, estimates that only CU90 million of the amount is collectible. For the remaining CU10 million, the utility accepts that it has implicitly provided a price concession of CU10 million due to the regulations compelling the utility to continue to provide water. As a result, the utility recognises revenue based on a transaction consideration of CU90 million. (See Example 11 for more guidance on implicit price concessions.)

IE274. To comply with the disclosure requirements in paragraph 171 of PBE IPSAS 47, the utility discloses the following information in the notes to its annual financial statements:

The utility is subject to the provisions of the Water Act, which requires all utilities to provide water *to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its water network and to continue to provide* water *even in the event of non-payment.*

During the year, the utility provided and billed CU100 million of water *to the households, but only recognised revenue of CU90 million, as this was the amount expected to be collected based on historical data. Therefore, CU10 million of the amount billed was not recognised as revenue.*

Application of Principles to Specific Transactions

Capital Transfers

IE275. Example 51 illustrates the application of paragraphs AG140–AG142 of PBE IPSAS 47 on capital transfers. Example 52 illustrates the initial measurement of a transfer of a physical asset.

Example 51 – Capital Transfers

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

IE276. Entity R enters into a binding arrangement with Entity P. The terms of the binding arrangement are as follows:

(a) Entity R is to receive a capital transfer of CU22 million in cash from Entity P, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) This amount is based on budgeted construction and related costs. The funding is to be fully paid to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

(i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.) along with the budgeted costs of these activities;

(ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress, but any funds that have not been spent on construction are to be returned to Entity P.

IE277. Entity R has determined that the binding arrangement has only one compliance obligation and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete satisfaction of the compliance obligation.

IE278. In this example, the substance of the binding arrangement is to receive funding for the construction of the building, and there was no transfer relating to the subsequent use of the building by Entity R. Therefore, upon receipt of the CU22 million, Entity R recognises cash and liability for the full amount of CU22 million because it has not yet started satisfying its compliance obligation (i.e., construction of the building) and is required to return any funds not spent on construction.

IE279. As Entity R completes the construction activities in its construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity R applies this percentage to the CU22 million to determine the amount of deferred revenue that should be derecognised from liabilities and recognised as earned revenue throughout the construction period.

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

IE280. Building on Case A, the binding arrangement now states that:

(a) The funding amount has been increased to CU32 million. The amount is based on budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE281. In this scenario, Entity R considers the substance of the transaction in accordance with the terms of the binding arrangement and concludes that the binding arrangement consists of two compliance obligations: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from PBE IPSAS 47, Entity R has allocated CU22 million to the construction of the building and CU10 million to its operation as a public library.

IE282. For the compliance obligation relating to the construction of the building, as in Case A, Entity R recognises a liability of CU22 million upon receipt of the funds. Entity R then derecognises the CU22 million liability (and recognises the amounts as earned revenue) over the construction period based on its construction progress as determined by the direct construction costs incurred.

IE283. For the compliance obligation relating to the operation of the building as a library, Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library during the 10-year period, and therefore would recognise a CU10 million liability upon initial receipt of the funds. After construction has been completed, Entity R derecognises CU1 million liability per year as it operates the building as a public library and recognises the amount as earned revenue.

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

IE284. In this scenario, the binding arrangement includes all of the terms from Case B, with the addition of the following:

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

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the construction or operation of the asset. For clarity, if Entity R has completed construction of the building and operated it as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of unearned revenue related to the operating subsidy and the CU5 million penalty) to Entity P.

IE285. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, the CU32 million will be recognised as a liability upon receipt. Subsequently, the CU22 million liability will be derecognised and recognised as earned revenue as the building is constructed, and the CU10 million liability will be derecognised and recognised as earned revenue over the 10-year operating period.

IE286. The additional CU5 million penalty is not recognised by Entity R because it is a contingent liability (as defined in PBE IPSAS 19) that is not a present obligation (as described in Chapter 5, *Elements in Financial Statements* of the *PBE Conceptual Framework*). This penalty only becomes a present obligation once the past event (breaching the terms of the agreement by not operating the building as a library) has occurred. Entity R will need to consider if disclosure of the contingent liability is required by PBE IPSAS 19.

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

IE287. The following scenario is independent from Cases A-C and illustrates the accounting for revenue from an operating transfer to highlight the differences with accounting for revenue from capital transfers.

IE288. In this scenario:

(a) Entity R already owns the building;

(b) The binding arrangement includes the terms relating to a CU10 million transfer to subsidise the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalisation of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE289. In this scenario, the CU10 million transfer only relates to the compliance obligation to operate the existing building as a public library over a 10-year period. Upon initial receipt, Entity R recognises the CU10 million as a liability.

IE290. Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library throughout the 10-year period. Therefore, Entity R derecognises the liability and recognises earned revenue of CU1 million per year as it operates the building as a public library.

Example 52 – Transfers of Physical Assets

IE291. A public health facility (Public Health) enters into a binding arrangement on 1 January 20X2 with the ~~regional~~ government health agency (Agency H) and agrees to the following:

(a) Agency H will transfer ownership of an X-ray machine to Public Health upon finalisation of the binding arrangement;

(b) Public Health will use the machine to provide X-ray imaging services to the citizens in the region for 10 years. After this 10-year period, Public Health retains ownership of the machine;

(c) If Public Health stops using the machine to provide imaging services during the 10-year period, it is required to return the machine to Agency H; and

(d) At the time of transfer, the remaining useful life of the machine is 15 years.

IE292. In this scenario, the transaction constitutes a transfer as defined in paragraph 4 of PBE IPSAS 47, but is not a capital transfer as Public Health is not required to use the physical asset received to acquire or construct a non-financial asset.

IE293. Upon transfer of the X-ray machine, Public Health applies paragraph 129 of the PBE IPSAS 47 and recognises and measures the asset at its fair value at the acquisition date in accordance with PBE IPSAS 17. The entity also recognises an equivalent liability, which is derecognised (and earned revenue is recognised) over the 10 years as the compliance obligation is satisfied over time. Public Health would also amortise the X-ray machine over its remaining useful life of 15 years in accordance with PBE IPSAS 17.

Pledges

Example 53 – Television Appeal for a Not-for-Profit Hospital

IE294. On the evening of 30 June 20X5, a local television station conducts a fundraising appeal for a not-for-profit hospital (the Hospital). The annual reporting date of the Hospital is 30 June. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

IE295. The Hospital does not recognise any amount in its general purpose financial statements in respect of the pledges. The Hospital does not control the resources related to the pledge, because it does not have the ability to exclude or regulate the access of others to the economic benefits or service potential of the pledged

resources; therefore it cannot recognise the asset or the related revenue until the donation is binding on the donor in accordance with paragraph AG150 of PBE IPSAS 47.

Concessionary Loans

Example 54 – Concessionary Loans

IE296. An Entity receives CU6 million funding from a multi-lateral development agency (Agency) to build 10 schools over the next 5 years. The funding is provided on the following conditions:

(a) CU1 million of the funding need not be repaid, provided that the schools are built;

(b) CU5 million of the funding is to be repaid as follows:

Year	Capital to be repaid
1	0%
2	10%
3	20%
4	30%
5	40%

(c) Interest is charged at five percent per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10 percent;

(d) To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned); and

(e) The Entity built the following schools over the period of the loan;

Year	Status
1	1 school completed
2	3 schools completed
3	5 schools completed
4	10 schools completed

IE297. The Entity determined that the substance of the CU1 million is revenue, and not a contribution from owners. In substance, the Entity has received a concessionary loan which includes a transfer of CU1 million and a loan of CU5 million, and an additional transfer of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10 percent).

IE298. Considering paragraphs AG152–AG153 of PBE IPSAS 47, the Entity accounts for the transfer of CU1 million + CU784,550 in accordance with this Standard, and the loan with its related contractual interest and capital payments in accordance with PBE IPSAS 41.

IE299. The journal entries are illustrated below:

1. On initial recognition, the resource recipient will recognise the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the resource recipient will recognise the following:				
Dr		Liability	CU178,455	
	Cr	Revenue		CU178,455
(1/10 of the schools built x CU1,784,550) (Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example, as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to PBE IPSAS 41).				

3. Year 2: the resource recipient will recognise the following (assuming that the resource recipient subsequently measures the concessionary loan at amortised cost):				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(3/10 schools built x CU1,784,550 – CU178,455 already recognised)				

4. Year 3: the resource recipient will recognise the following:				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(5/10 schools built x CU1,784,550 – CU535,365 already recognised)				

5. Year 4: the resource recipient will recognise the following:				
Dr		Liability	CU892,275	
	Cr	Revenue		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the resource recipient would recognise the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue		CU1,784,550

Debt Forgiveness

Example 55 – Debt Forgiveness

IE300. The central government (Government C) entered into a binding arrangement to lend a local government (Government L) CU20 million to enable Government L to build a water treatment plant. After a change in

policy, Government C decides to forgive the loan and advises the local government in writing. It also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE301. Upon receipt of this letter and documentation from Government C, Government L derecognises the liability for the loan and recognises revenue in the statement of comprehensive revenue and expenses in the reporting period in which the liability is derecognised in accordance with paragraphs AG155–AG158 of PBE IPSAS 47.

Bequests

Example 56 – Proposed Bequest

IE302. A 25-year-old recent graduate (the Graduate) of a university names the university (the University) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.

IE303. The University does not recognise any asset or revenue in its general purpose financial statements for the period in which the will is made, in accordance with paragraphs AG161–AG163 of PBE IPSAS 47. The past event for a bequest is the death of the testator (i.e., the Graduate), which has not occurred.

Gifts and Donations, including Goods In-kind

Example 57 – Goods In-kind

IE304. A Defence Force Agency of Government A (Defence Agency) agrees to provide an Aid Agency of Government B (Aid Agency) with its obsolete canvas tents for use as emergency relief housing after a natural disaster. Defence Agency purchased the tents for CU100 per unit two years prior to transferring them to Aid Agency. The agreement states that the tents are valued at CU100 per unit.

IE305. Aid Agency concludes that it has received a donation in the form of goods in-kind and applies paragraphs AG164–AG167 of PBE IPSAS 47. Upon receipt, Aid Agency determines that PBE IPSAS 17 is the relevant PBE Standard~~and the tents are held for operational capacity~~. Aid Agency determines that the fair value ~~current operational value~~ for this obsolete version of the tent is CU50. Therefore, Aid Agency recognises revenue at the value of CU50 per unit received instead of the CU100 as stated in the agreement.

Example 58 – External Assistance

IE306. Government A enters into an external assistance agreement with Government B, which provides Government A with development assistance to support Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties through an international court of law. The agreement specifies the details of the development assistance receivable by Government A and the types of items or expenditures the funds can be spent on to further its health objectives. Government A measures the transaction consideration of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to Government B.

IE307. At inception of the binding arrangement, Government A has a combined right and obligation which constitute a single asset or liability, which is measured at zero because the binding arrangement is wholly unsatisfied. Government A will recognise an asset on its statement of financial position in accordance with paragraphs 18–25 (for example, when Government A receives an inflow of resources from Government B, or if Government A begins satisfying its compliance obligation by incurring eligible expenditures in accordance with the terms of the external assistance agreement). Government A would also recognise a liability, which is derecognised (and earned revenue is recognised) as the compliance obligation is satisfied.

Comparison with NZ IFRS 15

Comparison with NZ IFRS 15

The binding arrangement accounting requirements in PBE IPSAS 47 *Revenue* are drawn primarily from NZ IFRS 15, *Revenue from Contracts with Customers* (issued in 2014, including amendments up to January 2022). The main differences between PBE IPSAS 47 and NZ IFRS 15 are as follows:

- PBE IPSAS 47 applies to all revenue transactions in the not-for-profit and public sector, which may arise from transactions with or without binding arrangements. NZ IFRS 15 applies to a subset of binding arrangements, specifically contracts to deliver goods or services to customers.
- PBE IPSAS 47 explicitly requires an entity to determine whether the revenue arises from a transaction with or without a binding arrangement. NZ IFRS 15 does not explicitly require an entity to determine whether the revenue arises from a contract.
- PBE IPSAS 47 uses the term "compliance obligation" as the unit of account for revenue recognition in a binding arrangement, which is a promise to either use resources internally for distinct goods or services, or to transfer distinct goods or services to another party (i.e., a purchaser or third-party beneficiary). NZ IFRS 15 uses the term "performance obligation" as the unit of account for revenue recognition in a contract, which is a promise to transfer distinct goods or services to a customer.
- The concept of compliance obligations in PBE IPSAS 47 is broader than performance obligations in NZ IFRS 15. As a result, NZ IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* is not applicable for public benefit entities because PBE IPSAS 47 includes principles to account for capital transfers and other transfers arising from binding arrangements.
- PBE IPSAS 47 requires an entity to disclose any transactions where it is compelled to satisfy an obligation, regardless of the counterparty's ability or intention to pay and the probability of collection of consideration. NZ IFRS 15 does not require this disclosure.
- PBE IPSAS 47 uses different terminology from NZ IFRS 15. For example, PBE IPSAS 47 uses the terms "compliance obligation", "resource provider", "stand-alone value", and "economic substance", while IFRS 15 uses the terms "performance obligation", "customer", "stand-alone selling price", and "commercial substance", respectively.

Comparison with IPSAS 47

PBE IPSAS 47 *Revenue* is drawn from IPSAS 47 *Revenue*.

The significant differences between PBE IPSAS 47 and IPSAS 47 are:

(a) PBE IPSAS 47 includes RDR concessions for Tier 2 public benefit entities. These concessions are aligned with those provided in NZ IFRS 15 *Revenue from Contracts with Customers* for Tier 2 for-profit entities.

(b) Unlike IPSAS 47, PBE IPSAS 47 applies to both public sector PBEs and Not-for-Profit PBEs. This has resulted in terminology changes and the inclusion of New Zealand Not-for-Profit guidance from PBE IPSAS 23 Implementation Guidance Appendix B in PBE IPSAS 47.

(c) PBE IPSAS 47 includes application guidance paragraph AG166.1, which aligns with paragraph 97.1 in PBE IPSAS 23 *Revenue from Non-exchange Transactions*. This guidance allows entities to elect not to recognize goods in-kind that meet the definition of inventories in PBE IPSAS 12 *Inventories* if it is not practicable to measure reliably the fair value of those goods at the date of acquisition. This exemption is particularly relevant for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution.

(d) PBE IPSAS 47 includes additional consequential amendments to certain PBE Standards – such as PBE FRS 45 *Service Concession Arrangements: Operator*, PBE FRS 48 *Service Performance Reporting*, PBE IAS 12 *Income Taxes,* PBE IFRS 17 *Insurance Contracts* and PBE IPSAS 13 *Leases*. Furthermore, in PBE IPSAS 47, the consequential amendments, that do not relate to PBE Standards (IPSAS 18 *Segment Reporting*, IPSAS 24 *Presentation of Budget Information in Financial Statements*, IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*, IPSAS 43 *Leases*, IPSAS 44 *Non-current Assets Held for Sale and Discontinued Operations*, IPSAS 45 *Property, Plant and Equipment)* have been removed.

(e) In accordance with Implementation Guidance paragraph B.3 in IPSAS 47, the term "appropriation" is defined in IPSAS 24 *Presentation of Budget Information in Financial Statements*, as an authorisation granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or a similar authority. However, since IPSAS 24 has not been incorporated into PBE Standards, the reference to the IPSAS 24 definition has been removed. PBE IPSAS 47 Implementation Guidance paragraph B.3 have been amended to refer to an appropriation as an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure for purposes specified by the legislature or similar authority. This update in PBE IPSAS 47 clarifies that the authorisation pertains to incurring expenses or capital expenditure, rather than merely the allocation of funds as described in IPSAS 24. This update aligns with the New Zealand Public Finance Act 1989.

(f) Implementation Guidance paragraph C3 in PBE IPSAS 47 was introduced to navigate complexities that may occur in transactions without a binding arrangement which involve multiple obligations. This paragraph clarifies that the allocation of the transaction price methods specified for binding arrangements in paragraphs 133–140 may also be applied to transactions without binding arrangements.

(g) PBE IPSAS 47 Illustrative Example 35 was expanded with Case A1 to demonstrate that the methods for the allocation of the transaction price specified for binding arrangements may also be applied to transactions without binding arrangements.

(h) PBE IPSAS 47 Illustrative Example 20 Case A was expanded to demonstrate the deferral of revenue in transactions where resources are used internally.

(i) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

Memorandum

Date:	4 October 2024
To:	NZASB Members
From:	Carly Berry
Subject:	**Draft ED PBE IPSAS 48 *Transfer Expenses***

Introduction and purpose

1. The purpose of this memo is to seek the Board's agreement with:
   (a) our recommendations relating to topics which the Board has not yet discussed – specifically:
      (i) our proposed modifications to IPSAS 48 *Transfer Expenses* as a result of the Board's August 2024 decision to expand the scope of ED PBE IPSAS 48 to include social benefits;
      (ii) RDR concessions for Tier 2 entities;
      (iii) Transitional provisions;
      (iv) Consequential amendments to other PBE Standards; and
      (v) Illustrative examples.
   (b) other modifications we are proposing to IPSAS 48.
2. This memo should be read in conjunction with agenda item 7.5, which contains a marked-up version of the draft ED PBE IPSAS 48 ("draft ED"). This draft ED reflects the Board's decisions to date, as well as our recommendations on the topics referred to in paragraph 1 above.
3. We are not seeking approval of the draft ED at this meeting. Instead, we are providing the Board with the opportunity to review and provide feedback on the proposed drafting of PBE IPSAS 48 in its entirety. We plan to seek the Board's approval to issue ED PBE IPSAS 48 at the December 2024 meeting.

Recommendations

4. We recommend that the Board:
   (a) AGREES with our recommended modifications to IPSAS 48 as a result of the aforementioned scope expansion;
   (b) AGREES with our recommended RDR concessions for Tier 2 entities;
   (c) AGREES NOT to include any transitional provisions additional to those already included in IPSAS 48;
   (d) AGREES with the drafting of the illustrative examples, which are substantively aligned with those in IPSAS 48;

(e) AGREES with other proposed New Zealand modifications to IPSAS 48, as identified in agenda item 7.5; and

(f) PROVIDES FEEDBACK on any other aspects of the draft ED as set out in agenda item 7.5.

Questions to the Board

5. Agenda item 7.5 includes the Board questions in turquoise boxes within the draft ED, alongside the relevant paragraphs. There are nine questions in total, numbered in the order in which the relevant paragraphs appear in the draft ED. The table below sets out the questions, the locations within agenda item 7.5 and the paragraph references in this memo.

Question #	Location within agenda item 7.5	Questions Does the Board agree:	Para # in this memo
1	Scope – page 6	With the inclusion of paragraphs 4.1, 4.2 and AG3.1?	7–12
2	Recognition – page 9	With the inclusion of the highlighted wording in paragraph 18(b)?	44(e)
3	Disclosure – page 13	With the proposed amendments to paragraphs 54 and 60?	13–18
4	Disclosure – page 14	To exempt Tier 2 entities from complying with paragraphs 55–58 and instead require such entities to comply with paragraphs RDR 55.1 – RDR 58.1?	24–28
5	Disclosure – page 14	To exempt Tier 2 entities from complying with paragraphs 59(b) and 60(b)?	24–26, 29–31
6	Disclosure – page 14	To exempt Tier 2 entities from complying with paragraph 59(d)?	24–26, 32–33
7	Transition – page 15	That the transitional provisions in paragraph 64 (which are substantively aligned with IPSAS 48) are appropriate in the New Zealand context?	34–36
8	Amendments to other PBE Standards – page 25	With our recommended consequential amendments to PBE IPSAS 19?	19–23
9	Illustrative examples – page 35	With the drafting of the illustrative examples, which are substantively aligned with the IPSAS 48 illustrative examples?	40–43

Structure of this memo

6. This memo includes the following sections.

    (a) Proposed modifications due to the scope expansion for social benefits

    (b) Proposed RDR concessions

    (c) Transitional provisions

    (d) Consequential amendments to other PBE Standards

    (e) Illustrative examples

    (f) Other proposed modifications included in the draft ED

    (g) Appendix 1: Summary of outcomes from previous Board meetings relevant to ED PBE IPSAS 48

    (h) Appendix 2: Comparison of AASB 137 paragraphs with proposed consequential amendments to PBE IPSAS 19

Proposed modifications due to the scope expansion for social benefits

7. At the August 2024 meeting, the Board agreed to rebut the presumption in the PBE Policy Approach and not develop a PBE Standard using IPSAS 42 *Social Benefits* as a starting point.

8. After considering the possible courses of action to take as a result of this rebuttal, the Board agreed with our recommendation to expand the scope of ED PBE IPSAS 48 to include social benefits (i.e. social welfare payments made by central and local governments), through deletion of the IPSAS 48 scope exclusion for these transactions. This scope expansion is possible because social benefits would typically meet the definition of a "transfer expense".

9. When preparing the draft ED, we considered if modifications were required to IPSAS 48 to account for the scope expansion and if so, the nature and extent of these modifications. Discussions with NZ Treasury representatives and comments from a member of the Drafting Support Group have informed our considerations in this regard. We have determined that there should be three groups of modifications.

Additional authoritative guidance in ED PBE IPSAS 48 (pages 6 and 16 of the draft ED)

10. To emphasise the application of the draft ED to social benefit transactions – and how the fundamental principle of a binding arrangement applies to these transactions – we recommend the addition of paragraphs 4.1 and 4.2 to the scope section of the draft ED. These paragraphs clarify that these transactions:

    (a) are within scope of ED PBE IPSAS 48 when the definition of a transfer expense is met; and

    (b) are without a binding arrangement, because individuals and communities do not have an enforceable obligation to central or local governments in return for the transfer of cash, goods or services.

11. Paragraphs 4.1 and 4.2 also reference the delivery of services to individuals and communities by central and local governments, since such transactions would likely also be within scope of PBE IPSAS 48. However, central and local governments would typically acquire resources and

incur expenses through contracts and other binding arrangements in order to deliver these services – these exchange transactions would be accounted for in accordance with other PBE Standards. To clarify this, we recommend adding paragraph AG3.1 to the application guidance section of the draft ED.

12. Question 1 in agenda item 7.5 (and paragraph 5), asks whether the Board agrees with our recommendations.

Amendments to the disclosure requirements in IPSAS 48 (pages 13–14 of the draft ED)

13. We reviewed the presentation and disclosure requirements in paragraphs 44–61 of IPSAS 48, to determine whether they are appropriate for social benefit transactions. As noted at the August 2024 meeting, there is no "problem to be solved" with respect to the accounting for social benefit transactions, and we are unaware of any stakeholder concerns with the level of detail presented and disclosed in the NZ Government financial statements relating to these transactions.

14. Therefore, we undertook this review by comparing the IPSAS 48 requirements to the information presented and disclosed in the NZ Government financial statements relating to these transactions. In our view, the majority of these requirements are either:

    (a) consistent with current requirements in PBE Standards; or

    (b) aligned with the information already presented or disclosed in the NZ Government financial statements.

15. From this review, we identified two disclosure requirements which would require more detail to be included in the financial statements:

    (a) paragraph 54 – which requires an entity to provide qualitative and quantitative information on significant transfers arising from transactions with and without binding arrangements.

    (b) Paragraph 60 – which requires an entity to disclose the purpose of its transfers without a binding arrangement as well as significant payment terms (if any) and the nature of the resources that have been (or will be) allocated.

    Application of these requirements to social benefit transactions is likely to result in more disclosure, as currently much of this information is not disclosed in the NZ Government financial statements.

16. In our view, it would not add to the usefulness of the financial statements to incorporate information that users already have access to from other sources[1], especially since such disclosure would also likely increase the length of the financial statements and result in "clutter". There are two possible amendments that could be made to these disclosure requirements:

    (a) Option 1: Exempt preparers from making this disclosure with respect to social benefit transactions.

[1] The nature of transfer arrangements that are social benefit schemes is that information about the benefits available, eligibility criteria and recent amendments must be widely known for citizens to be able to make claims. Much of this information is available on the Ministry of Social Development's website in the Benefit Fact Sheets.

(b) Option 2: Allow for cross-referencing from the financial statements to some other statement or report that is available to users of the financial statements on the same terms as the financial statements and at the same time.

17. We recommend Option 2, as it would allow for cross-referencing to where the information can be found (which could be helpful for those users who have never had to look for the information before). A member of the Drafting Support Group queried what sort of statement or report would be applicable here; therefore, our proposed amendments to paragraphs 54 and 60 include an example.

18. Question 3 in agenda item 7.5 (and paragraph 5), asks whether the Board agrees with our recommendations.

Amendments to PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets (pages 25–26 of the draft ED)

19. At the August 2024 meeting, the Board agreed to rebut the presumption in the PBE Policy Approach and not develop amendments to PBE IPSAS 19 using the IPSASB's amending standard, *Collective and Individual Services*, as a starting point. The key principle in the IPSASB's amending standard – that no provision is recognised for collective services or individual services before the services are delivered – is substantively aligned with the current NZ-specific scope exclusion in paragraph 2.2 of PBE IPSAS 19[2].

20. However, since the scope of ED PBE IPSAS 48 will include social welfare payments and the delivery of services to individuals and communities, we discussed with the Board the continuing relevance of PBE IPSAS 19 paragraph 2.2, and how / whether to replace this paragraph with appropriate authoritative guidance within PBE IPSAS 19[3]. Suggestions included developing authoritative guidance in PBE IPSAS 19 that address the relevant principles to apply to the transactions contemplated in the existing scope exclusion. Such an approach would be similar to the one taken by the AASB in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

21. During the drafting of this ED, we discussed this topic with NZ Treasury representatives. This discussion has informed our recommendations to:

    (a) incorporate the relevant AASB 137 paragraphs into PBE IPSAS 19 (as paragraphs 34.1 and 34.2), amended to align more closely with PBE IPSAS 19 terminology and to incorporate some of the existing wording from paragraphs 11.1–11.3 in PBE IPSAS 19; and

    (b) delete paragraphs 2.2 and 11.1–11.3.

[2] PBE IPSAS 19.2.2: The Crown shall not apply this Standard in accounting for obligations expressed in legislation that have characteristics similar to an executory contract.

[3] ED PBE IPSAS 48 requires an entity to consider whether it has a legal or constructive obligation to transfer resources in a transaction without a binding arrangement. Therefore, we consider that authoritative guidance in PBE IPSAS 19 on when such an obligation would arise with respect to central and local government public policies, election promises or statements of intent would be useful for entities.

22. Question 8 in agenda item 7.5 (and paragraph 5), asks whether the Board agrees with our recommendations. Appendix 2 sets out a comparison between the proposed paragraphs 34.1 and 34.2 with the relevant AASB 137 paragraphs.

23. At the December 2024 meeting, we expect to provide a draft Basis of Conclusions (BCs) for PBE IPSAS 48 for the Board to review. Along with the draft PBE IPSAS 48 BCs, we also intend to draft BCs for PBE IPSAS 19[4], which will set out our rationale for developing paragraphs 34.1 and 34.2 as well as the PBE IPSAS 19 principles upon which these new paragraphs were based. The relationship between PBE IPSAS 48 and PBE IPSAS 19 will also be highlighted within the BCs for both standards.

Proposed RDR concessions (pages 13–14 of the draft ED)

24. The disclosure requirements in the draft ED can be found in paragraphs 50–61. When developing our recommendations for RDR concessions, we have taken the position that Tier 2 entities should not be required to comply with any IPSAS 48 disclosure requirements, unless those disclosure requirements meet the following key principles:

    (a) The information provided by the disclosures in the financial statements meet the needs of users of Tier 2 financial statements; and

    (b) The benefits of providing the disclosures to these users exceed the costs for Tier 2 entities to provide them.

25. As part of our assessment, we also took into account the need for consistency with RDR concessions on similar disclosure requirements in other PBE Standards. As there is no for-profit equivalent to IPSAS 48, there was no need for us to consider alignment with the for-profit sector.

26. Our assessment has identified three main categories for RDR concessions:

References to disclosure requirements in other PBE Standards

27. Paragraphs 55–58 refer entities to disclosure requirements in other PBE Standards under certain circumstances. In the interests of clarifying that Tier 2 entities are only required to comply with those disclosure requirements in other PBE Standards that are applicable to them, we recommend the following approach:

    (a) denote paragraphs 55–58 with an asterisk (*) – i.e., exempt Tier 2 entities from these disclosure requirements; and

    (b) add paragraphs RDR 55.1–58.1, which contain the same requirements as paragraphs 55–58 but with an explicit reference to the disclosure requirements that are "relevant to Tier 2 entities".

28. Question 4 in agenda item 7.5 (and paragraph 5), asks whether the Board agrees with our recommended approach.

---

[4] These BCs will be included in Appendix B of the final ED as consequential amendments to PBE IPSAS 19.

Disclosure of significant payment terms

29. We have recommended RDR concessions for paragraphs 59(b) and 60(b) because, in our view, the significant payment terms will not be critical information for the users of Tier 2 financial statements. This is because:

    (a) the purpose of the arrangement and the nature of the resources will be disclosed in accordance with the requirements of paragraph 59(a) and (c) respectively; and

    (b) the current/non-current classification is presented on the statement of financial position, in accordance with paragraph 70 of PBE IPSAS 1 *Presentation of Financial Reports*[5].

30. Disclosures made in accordance with the requirements referred to in paragraph 10 above provide a core level of information to users to understand the nature of the arrangement and the timing of expected outflows which will impact the entity. The costs of requiring Tier 2 entities to make further disclosure under paragraphs 59(b) and 60(b) would therefore exceed the associated benefits.

31. Question 5 in agenda item 7.5 (and paragraph 5), asks whether the Board agrees with our recommended RDR concessions.

Significant risks and uncertainties relating to the realisation of transfer right assets

32. We have recommended an RDR concession for paragraph 59(d) because transfer right assets will ultimately be realised through the statement of comprehensive revenue and expense (as a transfer expense or as an impairment to a non-cash-generating asset) or be derecognised with a corresponding financial asset recognised (if the transfer provider expects to receive a return of funds for non-performance). The risk of a negative impact to the entity's liquidity is therefore nil – therefore, in our view, the benefits of disclosing this information to users of Tier 2 financial statements will not exceed the costs for Tier 2 entities.

33. We also note the following:

    (a) In PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*, Tier 2 entities do not need to provide disclosure of events and circumstances that led to the recognition of impairment losses (RDR concession on paragraph 77(a)).

    (b) Other PBE Standards (e.g. PBE IPSAS 30 *Financial Instruments: Disclosures* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*) contain RDR concessions on risk-related disclosures.

    Question 6 in agenda item 7.5 (and paragraph 5), asks whether the Board agrees with our recommended RDR concession.

Transitional provisions (page 15 of the draft ED)

34. Paragraph 64 of IPSAS 48 permits an entity to apply the Standard either:

    (a) prospectively, to transfers occurring on or after the date of initial application; or

[5] Unless the entity presents its assets and liabilities using a presentation based on liquidity – in which case a user of Tier 2 financial statements would still receive some useful information on the expected timing of payments.

(b) retrospectively to each prior reporting period presented in accordance with IPSAS 3 *Accounting Policies, Changes to Accounting Estimates and Errors*.

35. According to paragraphs BC34– BC35 in IPSAS 48, the IPSASB decided to allow prospective application in response to feedback on ED 72 *Transfer Expenses* that the retrospective transitional provisions in the ED were onerous and could lead to practical difficulties in applying the final IPSAS. The IPSASB noted that allowing the option for prospective application would not result in a significant loss of information because:

    (a) if a transfer expense was fully expensed in the prior period, the transfer of resources would have already occurred and would have been reported in the prior period financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with IPSAS 48, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure; and

    (b) If an entity recognised an asset or liability for a transfer expense transaction by applying the asset or liability recognition and measurement principles of the Conceptual Framework, these principles are already consistent with the accounting model for transfer expenses in IPSAS 48.

36. We agree with the IPSASB's view on transitional provisions and therefore recommend including paragraph 64 in the draft ED without substantive modification. Question 7 in agenda item 7.5 (and noted in paragraph 5), asks whether the Board agrees with our recommendation.

Consequential amendments to other PBE Standards (pages 24–28 of the draft ED)[6]

37. Our starting point when determining consequential amendments to other PBE Standards is Appendix B in IPSAS 48, which includes amendments to other IPSAS. We have performed the following work on Appendix B:

    (a) Aligned the wording to the equivalent PBE Standards; and

    (b) Deleted amendments to IPSAS where there is no PBE equivalent (e.g., IPSAS 42).

38. In addition to a review of Appendix B, we considered whether amendments to domestic PBE Standards are required. Only one domestic standard requires an amendment, which is minor in nature – XRB A1 *Application of the Accounting Standards Framework*.

39. Finally, we considered whether the consequential amendments in IPSAS 42 are applicable to the draft ED, since we have expanded the scope to include social benefits. We have identified an amendment to paragraph AG23 in IPSAS 28 *Financial Instruments: Presentation* for which an amendment to the equivalent PBE Standard is required.

Illustrative examples (pages 35–45 of the draft ED)

40. We reviewed the IPSAS 48 illustrative examples to determine whether:

    (a) the existing examples are fit-for-purpose for the New Zealand context; and

[6] Consequential amendments to PBE IPSAS 19 are discussed in paragraphs 20–24 of this memo.

(b) additional examples are required for the New Zealand context.

41. There are 11 illustrative examples in IPSAS 48. We recommend including all of them within the draft ED; but, to make them more New Zealand-specific, we have changed the names of the entities where necessary. For example, we have changed all references to "national government" to "central government", and "state" or "regional" governments have been changed to "local" government.

42. Example 4 provides an example of an agreement for transfer that is subject to completion of the appropriations process. In this example, we have amended the dates to align with the New Zealand context.

43. Throughout our work on this project since its commencement in June 2023, we have not identified a need for additional illustrative examples and therefore do not recommend developing any more. Question 9 in agenda item 7.5 (and paragraph 5), asks whether the Board agrees with our recommendations for the illustrative examples.

Other proposed modifications included in the draft ED

44. Other proposed modifications include[7]:

(a) New Zealand-specific scope paragraphs which appear in all PBE Standards (paragraphs 2.1 and 2.2).

(b) Replacing the reference to IPSAS 43 *Leases* with PBE IPSAS 13 *Leases* in the scope section – we expect PBE IPSAS 43 to come into effect for public sector PBEs only after the issuance of PBE IPSAS 48.

(c) New Zealand-specific paragraphs aligned with legislative requirements relating to the commencement and application of an XRB accounting standard (paragraphs 62–63).

(d) minor amendments to the wording in the Application Guidance section of IPSAS 48 to account for the not-for-profit context.

(e) amendments to paragraph 18 (which concerns the recognition of transfer expenses from transactions without binding arrangements) – at the August 2024 meeting, we noted to Board members that paragraph 18(b) could state more explicitly that if there is no provision recognised, then an expense is recognised when the entity ceases to control the resources. We have thus amended paragraph 18(b) – Question 2 in agenda item 7.5 (and paragraph 5) asks whether the Board agrees with this amendment.

[7] Note – paragraph 44 does not list those modifications included in the draft ED which have already been agreed by the Board at previous meetings. Refer to Appendix 1 for those modifications.

Appendix 1: Summary of outcomes from previous Board meetings relevant to ED PBE IPSAS 48

Outcomes highlighted in grey are those which directly affect the drafting of the ED.

Meeting	Outcome	Action
August 2024	The Board AGREED:	
	• that ED PBE IPSAS 47 and ED PBE IPSAS 48 do not need further New Zealand-specific guidance on appropriations;	No action required.
	• to align the scope exclusions in ED PBE IPSAS 48 with those in IPSAS 48 *Transfer Expenses* (excluding consideration of the IPSAS 48 scope exclusion for social benefits);	Paragraph 4
	• To expand the scope of ED PBE IPSAS 48, through deletion of the IPSAS 48 scope exclusion relating to social benefits.	Paragraph 4(f)
	• that a clarifying paragraph on the applicability of onerous contracts to transfer expense transactions should be added to ED PBE IPSAS 48;	Paragraph AG3.2
	• to retain, unaltered, the new terminology introduced by IPSAS 47 and IPSAS 48.	No action required.
	The Board NOTED the analysis regarding the expected implications of accounting for revenue and expenses under the proposed requirements in ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses*, specifically with respect to entities transitioning from Tier 2 to Tier 3 PBE Accounting Requirements (and vice versa).	No action required.
	The Board provided FEEDBACK on the continuing relevance of the Crown-specific scope exclusion in PBE IPSAS 19 paragraph 2.2, and how / whether to replace this paragraph with appropriate authoritative guidance within PBE IPSAS 19.	ED PBE IPSAS 48 Appendix B (Amendments to PBE IPSAS 19)
June 2024	The Board AGREED that the accounting treatment of multi-year funding and capital transfer in IPSAS 47 and IPSAS 48 is fit-for-purpose in New Zealand.	No action required.

Meeting	Outcome	Action
May 2024	The Board:	
	• AGREED with staff's recommendation not to develop guidance (whether authoritative or non-authoritative) on New Zealand specific enforcement mechanisms and consequences;	No action required.
	• Provided FEEDBACK on our findings on appropriations and suggested staff explore the different types of New Zealand appropriations to ensure the IPSAS 47 and IPSAS 48 guidance is sufficient;	Actioned at the Aug 2024 NZASB meeting.
	• AGREED with staff's recommendation to update the non-authoritative appropriation guidance by:	
	○ removing the reference to IPSAS 24 *Presentation of Budget Information in Financial Statements* from the IPSAS 47 and IPSAS 48 Implementation Guidance.	IG B.3
	○ rewording the definition of appropriations as – an authorisation granted by a legislative body (i.e. the enabling authority) to allocate funds incur expenses or capital expenditure for the purpose specified by the legislature or similar authority – i.e. removing the strike through words and adding the underlined words.	IG B.3
	○ considering if there are other changes required to the guidance on appropriations in the IPSAS 47 and IPSAS 48 Bases for Conclusions, Implementation Guidance and Illustrative Examples to align with the New Zealand context.	Illustrative Example 4
	• Provided FEEDBACK on staff's intention to develop non-authoritative guidance and/or educational material for: ○ The interaction between the new PBE Standards and PBE IPSAS 19. ○ The accounting for multi-party community initiatives.	To be actioned before the outreach activities in Feb – Jun 2025.
October 2023	The Board AGREED that:	
	• the definition of a binding arrangement in IPSAS 47 *Revenue* should be included in the definition section of both new PBE Standards; and	Paragraph 6
	• staff should explore New Zealand-specific enforcement mechanisms and legal documents for the purpose of creating application guidance to assist entities with their enforceability assessments.	Actioned at the May 2024 meeting.

Meeting	Outcome	Action
	The Board CONSIDERED and provided FEEDBACK on:	
	• areas of binding arrangement, enforceability and compliance obligation principles where further analysis is required;	No action required.
	• consequences and the form it should take to make an arrangement enforceable and recognise deferred revenue with further analysis required on this point; and	No action required.
	• staff's assessment of whether a transfer right asset meets the definition of an asset in the Conceptual Framework.	No action required.
August 2023	The Board provided feedback on the draft project plans for developing PBE Standards based on IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses* and on the approach to drafting the PBE EDs.	Proceeded with the project plan.
June 2023	The Board agreed to commence projects to develop new PBE Standards on revenue and transfer expenses, using IPSAS 47 and IPSAS 48 as respective starting points.	Commenced with the development of new PBE Standards.

Appendix 2: Comparison of AASB 137 paragraphs with proposed consequential amendments to PBE IPSAS 19

AASB wording	Proposed NZ wording	Notes
[Paragraph Aus26.1] This paragraph and paragraph Aus26.2 relate to the recognition by a local government, government department or government of a liability arising from a local government or government existing public policy, budget policy, election promise or statement of intent. The intention to make payments to other parties, whether advised in the form of a local government or government budget policy, election promise or statement of intent, does not of itself create a present obligation which is binding. A liability would be recognised only when the entity is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits. For example, a government does not have a present obligation to sacrifice future economic benefits for social welfare payments that might arise in future reporting periods. A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period. Similarly, a government does not have a present obligation to sacrifice future economic benefits under multi-year public policy agreements until the grantee meets conditions such as grant eligibility criteria, or has provided the services or facilities required under the grant agreement. In such cases, only amounts outstanding in relation to current or previous periods satisfy the definition of liabilities.	[Paragraph 34.1] This paragraph and paragraph 34.2 relate to the recognition by a central or local government of a liability arising from a local government or central government existing public policy, budget policy, election promise or statement of intent. The intention of such entities to provide goods, services or cash transfers to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation. A liability would be recognised only when the entity is committed in the sense that it has little or no realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. For example, a present obligation for social welfare payments at the reporting date arises only when the intended recipients have satisfied the criteria for entitlement to those payments for a payment period that occurs before or encompasses the reporting date.	Other than amending the wording to align more closely with the terminology within PBE IPSAS 19, the two paragraphs are substantively aligned – except that the last two sentences are not incorporated into the NZ wording. We do not recommend referring to arrangements that may meet the definition of a binding arrangement, as the accounting for such arrangements is dealt with in PBE IPSAS 48. In contrast, entities must refer to the accounting requirements within PBE IPSAS 19 for transactions without binding arrangements.

AASB wording	Proposed NZ wording	Notes
[Paragraph Aus26.2] Some such transactions or events may give rise to legal, social, political or economic consequences which leave little, if any, discretion to avoid a sacrifice of future economic benefits. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster, where a government has a clear and formal policy to provide financial aid to victims of such disasters. In this circumstance, the government has little discretion to avoid the sacrifice of future economic benefits. However, the liability is recognised only when the amount of financial aid to be provided can be measured reliably.	[Paragraph 34.2] Under certain circumstances, a legal or constructive obligation may arise from some such transactions or events where the central or local government has little, if any, realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster, where, following such an event, a government has issued a clear and formal policy to provide financial aid to victims of that disaster, with such a policy containing sufficiently specific details to have raised a valid expectation in those affected that the government will provide this aid. However, the liability is recognised only when the amount of financial aid to be provided can be measured reliably.	Other than amending the wording to align more closely with the terminology within PBE IPSAS 19, the two paragraphs are substantively aligned.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

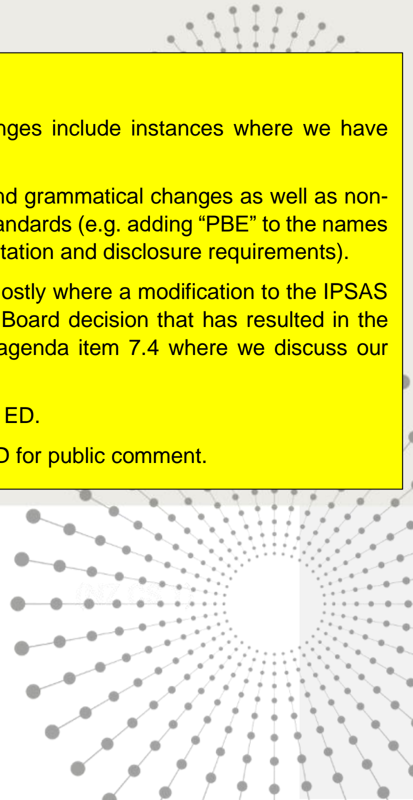
Agenda Item 7.5

Proposed new accounting standard for non-exchange expenses

PBE IPSAS 48 *Transfer Expenses*

Exposure Draft

Submissions close [xx] June 2025



Note to Board members

Changes from the IPSAS have been highlighted in **blue**. Highlighted changes include instances where we have updated the language to refer to both public and not-for-profit entities.

Certain changes have not been highlighted – these include minor spelling and grammatical changes as well as non-substantive changes made to maintain consistency within the PBE suite of standards (e.g. adding "PBE" to the names of IPSAS standards and removing the term "Display" in the context of presentation and disclosure requirements).

Notes to Board members are included in comment boxes in certain areas, mostly where a modification to the IPSAS has been made. Some of these notes refer Board members to a previous Board decision that has resulted in the modification – others refer Board members to the relevant paragraphs in agenda item 7.4 where we discuss our recommendations.

Board questions are included in **turquoise** boxes within the body of the draft ED.

All highlights, comments and questions will be removed before issuing the ED for public comment.

February 2025

NZASB EXPOSURE DRAFT 2025-02

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 48 TRANSFER EXPENSES (PBE IPSAS 48)

Issued [date]

This [draft][1] Standard has been issued as a result of a new International Public Sector Accounting Standard – IPSAS 48 *Transfer Expenses.*

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of Standard

This Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after its publication. The Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

This Standard has a mandatory date of [1 January 2028], meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of this Standard to an earlier accounting period is permitted for accounting periods that end after the Standard takes effect – refer to paragraphs 62–62.3 of this Standard.

This Standard includes RDR disclosure concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 public benefit entity accounting requirements in accordance with XRB A1 *Application of the Accounting Standards Framework*. Entities that elect to report in accordance with Tier 2 accounting requirements are not required to comply with paragraphs in this Standard denoted with an asterisk (*). However, an entity is required to comply with any RDR paragraphs associated with a disclosure concession that is adopted.

[1] References to "this Standard" or "PBE IPSAS 48" throughout this Exposure Draft should be read as referring to "this draft Standard" or "draft PBE IPSAS 48".

COPYRIGHT

© External Reporting Board (XRB) 2025

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC) parts of the corresponding standard issued by the International Public Sector Accounting Standards Board (IPSASB), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

ISBN

DRAFT

PBE IPSAS 48 TRANSFER EXPENSES

CONTENTS

	Paragraph
Objective	1–2
Scope	2.1–5
Definitions	6–7
Identifying the Transfer Expense Transaction	8–9
Binding Arrangements and Enforceability	10–17
Transfer Expenses from Transactions without Binding Arrangements	18–20
Recognition	18
Measurement	19–20
Transfer Expenses from Transactions with Binding Arrangements	21–43
Identifying Transfer Rights	21
Recognition of Transfer Expenses	22–29
Measurement	30–43
Presentation	44–49
Disclosure	50–61
Commencement and Application	62–64
Transition	64

Appendix A: Application Guidance

Appendix B: Amendments to Other PBE Standards

Basis for Conclusions

Implementation Guidance

Illustrative Examples

Comparison with IPSAS 48

The following is available on the XRB website as additional material

IPSASB Basis for Conclusions

DRAFT

Public Benefit Entity International Public Sector Accounting Standard 48 *Transfer Expenses* is set out in paragraphs 1–64 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 48 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 48, the IPSASB's Basis for Conclusions on IPSAS 48, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

DRAFT

Objective

1. The objective of this Standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and

   (b) Sets out the accounting requirements for the transfer expense transaction.

Scope

2.1. **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

2.2. **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

3. **An entity that prepares and presents financial statements shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers.**

4. **This Standard does not apply to:**

   (a) Leases as defined in PBE IPSAS 13[2] *Leases*;

   (b) Contributions from, and distributions to, owners;

   (c) Service concession arrangements as defined in PBE IPSAS 32 *Service Concession Arrangements: Grantor*;

   (d) Employee benefits as defined in PBE IPSAS 39 *Employee Benefits*;

   (e) Financial instruments, including concessionary loans, as defined in PBE IPSAS 41 *Financial Instruments*;

   (f) [Not used]

   (g) Insurance contracts within the scope of PBE IFRS 17 *Insurance Contracts*;

   (h) Share-based payments (see the international or national accounting standard dealing with share-based payments); and

   (i) Income taxes within the scope of PBE IAS 12 *Income Taxes*.

4.1. The scope of this Standard includes expenses arising from transactions relating to social welfare payments to individuals (such as for unemployment and national superannuation benefits) and to the delivery of services to individuals and communities by central and local governments (such as health and education services) when they meet the definition of a transfer expense (see paragraph 6).

4.2. The transactions referred to in paragraph 4.1 are without a binding arrangement because individuals and communities do not have an enforceable obligation to central or local governments in return for the transfer of cash, goods or services.

Question 1 to Board members

Refer to paragraphs 7–12 in agenda item 7.4. Do Board members agree with the inclusion of paragraphs 4.1, 4.2 and AG3.1?

Commented [CB1]: Note to Board members
Paragraph 4(f) in IPSAS 48 includes the scope exclusion for social benefits as defined in IPSAS 42 *Social Benefits*. The Board agreed to remove this scope exclusion at the August 2024 Board meeting.

[2] As of the issuance date of PBE IPSAS 48, PBE IPSAS 13 *Leases* remains in effect for public sector public benefit entities and has not yet been superseded by PBE IPSAS 43 *Leases*. PBE IPSAS 13 also continues to apply to not-for-profit public benefit entities. Therefore, this Standard references PBE IPSAS 13 rather than PBE IPSAS 43.

DRAFT

5. A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:

   (a) If the other Standards specify how to separately recognise and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18–43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

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

   Paragraphs AG2–AG3.1 provide additional guidance on the scope of this Standard.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

   For the purposes of this Standard, a binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG11–AG29 provide additional guidance.)

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

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

   For the purposes of this Standard, the transfer consideration represents the total amount of resources[3] which an entity expects to transfer.

   A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 8–9 provide additional guidance).

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

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

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

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

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

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

7. The following terms are defined in PBE IPSAS 47 *Revenue*:

   (a) [Not used]

   (b) Compliance obligation;

Commented [CB2]: Note to Board members
Inclusion of this definition due to Board decision - October 2023. Refer to Appendix 1 in agenda item 7.4.

Commented [CB3]: Note to Board members
The definition of a binding arrangement is now included in this ED (see comment above) - therefore, we do not need to refer preparers to the Revenue ED for this definition.

[3] In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

(c) Taxes; and

(d) Third-party beneficiary.

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

Expenses are defined in PBE IPSAS 1 *Presentation of Financial Reports*.

Paragraphs AG4–AG9 provide additional guidance on the definitions in this Standard.

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

Identifying the Transfer Expense Transaction

8. **An entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is derecognised when (or as) the entity's rights from the transfer arrangement are extinguished.[4] For transfers which do not result in the recognition of an asset, a transfer expense is recognised:**

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

    (b) When the entity has incurred an obligation to transfer resources and recognises a liability for the obligation.

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

9. An entity will apply the guidance on recognition and measurement in this Standard as follows:

    (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18–20; and

    (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21–43.

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

Binding Arrangements and Enforceability

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

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

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

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

---

[4] The asset may be derecognised at a point in time or over a period of time depending on the terms of the arrangement.

DRAFT

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

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

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

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

    (b) The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

    Paragraphs AG11–AG29 provide additional guidance on enforceability and binding arrangements.

Combination of Binding Arrangements

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

    (a) The binding arrangements are negotiated as a package with a single objective;

    (b) The amount of resources to be transferred in one binding arrangement depends on the consideration or performance of the other binding arrangement; or

    (c) The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right in accordance with paragraph 21.

Transfer Expenses from Transactions without Binding Arrangements

Recognition

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

    (a) At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of PBE IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognised provision; or

    (b) If a constructive or legal obligation to transfer resources does not exist (and therefore a provision is not recognised in accordance with paragraph 22 of PBE IPSAS 19), when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognises the resources it ceases to control in accordance with other Standards.

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

Question 2 to Board members

Refer to paragraph 44(e) in agenda item 7.4. Do Board members agree with the inclusion of the highlighted wording in paragraph 18(b)?

Measurement

19. **When a provision is recognised in the situation described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.**

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

DRAFT

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

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

    (a) A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or

    (b) A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.

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

Recognition of Transfer Expenses

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

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

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

24. **For transfer expenses with binding arrangements, an entity shall recognise expenses:**

    (a) When (or as) a transfer right asset is derecognised; or

    (b) When a transfer obligation liability is recognised.

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

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

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

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

Modifications to a Binding Arrangement

27. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes the existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement, or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the original binding arrangement until the modification to the binding arrangement is approved.

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

(a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights (see paragraphs AG31–AG34), because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and

(b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.

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

Measurement

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

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

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

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

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

Variable Consideration

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

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

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

Allocating the Transfer Consideration to Transfer Rights

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

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

    (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or

    (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).[5]

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

Changes in the Transfer Consideration

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

41. For a change in transfer consideration that did not arise from a modification to the binding arrangement, an entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognised as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.

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

Impairment of a Transfer Right Asset

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

Presentation

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

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

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

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

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

49. As required by paragraph 109 of PBE IPSAS 1, an entity shall present, either on the face of the statement of comprehensive revenue and expense or in the notes, an analysis of expenses using a classification based

---

[5] This guidance is also applicable to a specific portion of variable consideration that can or cannot be identified with one or more transfer rights.

DRAFT

on the nature of expenses or their function within the entity. Paragraph 111 of PBE IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programmes, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programmes or purposes for which the transfers were made.

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

Disclosure

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

    (a) Transfer expenses and related balances (see paragraphs 53–58);

    (b) Transfer arrangements (see paragraphs 59–60); and

    (c) The significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).

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

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

Transfer Expenses and Related Balances

53. As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by PBE IPSAS 1. This analysis can be presented on the face of the statement of comprehensive revenue and expense or disclosed in the notes.

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

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

    The above information shall be provided either in the financial statements or incorporated by cross-reference from the financial statements to some other statement or report that is available to users of the financial statements on the same terms as the financial statements and at the same time. For example, an entity may reference to the Benefit Fact Sheets published by the Ministry of Social Development when relevant to its non-binding arrangements.

Question 3 to Board members

Refer to paragraphs 13–18 in agenda item 7.4. Do Board members agree with the proposed amendments to paragraphs 54 and 60?

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

RDR 55.1 When a transfer right asset has been derecognised for non-performance and a financial asset has been recognised (see paragraph 26), an entity applies the disclosure requirements for financial assets from PBE IPSAS 30 that are relevant to Tier 2 entities.

DRAFT

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

RDR 56.1 A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortised cost. Therefore, the disclosure requirements from PBE IPSAS 30 for payables that are relevant to Tier 2 entities are applicable to such liabilities.

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

RDR 57.1 If a liability has been recognised for variable consideration (see paragraphs 35–37), an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19 that are relevant to Tier 2 entities.

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

RDR 58.1 For transfers from transactions without binding arrangements, when a liability is recognised for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19 that are relevant to Tier 2 entities.

Question 4 to Board members

Refer to paragraphs 24–28 in agenda item 7.4. Does the Board agree to exempt Tier 2 entities from complying with paragraphs 55–58 and instead require such entities to comply with paragraphs RDR 55.1 – RDR 58.1?

Transfer Arrangements

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

(a) The purpose of the transfer binding arrangements;

*(b) Significant payment terms;

(c) The nature of the resources that have been or will be transferred; and

*(d) Significant risks and uncertainties relating to the realisation of transfer right assets.

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

Question 5 to Board members

Refer to paragraphs 24–26 and paragraphs 29–31 in agenda item 7.4. Does the Board agree to exempt Tier 2 entities from complying with paragraphs 59(b) and 60(b)?

Question 6 to Board members

Refer to paragraphs 24–26 and paragraphs 32–33 in agenda item 7.4. Does the Board agree to exempt Tier 2 entities from complying with paragraph 59(d)?

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

(a) The purpose of the transfer arrangements;

*(b) Significant payment terms, if any; and

(c) The nature of the resources that have been or will be transferred.

The above information can be aggregated for arrangements that are of a similar nature. In addition, the above information shall be provided either in the financial statements or incorporated by cross-reference from the financial statements to some other statement or report that is available to users of the financial statements on the same terms as the financial statements and at the same time. For example, an entity may reference to the Benefit Fact Sheets published by the Ministry of Social Development when relevant to its non-binding arrangements.

Commented [CB4]: Note to Board members
Refer to Question 5 at paragraph 59.

Commented [CB5]: Note to Board members
Refer to Question 3 at paragraph 54.

DRAFT

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

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

Commencement and Application

62. An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs 62.1–62.3. An entity that applies this Standard to an 'early adoption accounting period' shall disclose that fact in the notes.

When the Standard takes effect (section 27 Financial Reporting Act 2013)

62.1 This Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

62.2 The accounting periods in relation to which this amending Standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

62.3 In paragraph 62.2:

Early adopter means a reporting entity that applies this Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

(a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and

(b) For which the early adopter:

(i) First applies this Standard in preparing its financial report;

(ii) Applies PBE IPSAS 47 *Revenue* at the same time; and

(iii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

Mandatory date means 1 January 2028.

63. [Not used]

Transition

64. **An entity shall apply this Standard using one of the following two methods:**

(a) Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or

(b) To each prior reporting period presented in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, as if this Standard had always been applied.

Question 7 to Board members

Refer to paragraphs 34–36 in agenda item 7.4. Does the Board agree that the transitional provisions in paragraph 64 (which are substantively aligned with IPSAS 48) are appropriate in the New Zealand context?

Commented [CB6]: Note to Board members
The highlighted wording in paragraphs 62-64 is in line with legislative requirements relating to commencement and application of an XRB accounting standard.

Appendix A

Application Guidance

This Appendix is an integral part of PBE IPSAS 48.

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

(a) Scope (paragraphs AG2–AG3);

(b) Definitions (paragraphs AG4–AG9);

(c) Identifying the Transfer Expense Transaction (paragraph AG10);

(d) Binding Arrangements and Enforceability (paragraphs AG11–AG29);

(e) Derecognition of the Transferred Resources (paragraph AG30);

(f) Identifying Transfer Rights (paragraphs AG31–AG34);

(g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35–AG49);

(h) Allocating the Transfer Consideration to Transfer Rights (paragraphs AG50–AG51); and

(i) Presentation and Disclosure (paragraph AG52); and

(j) Application of Principles to Specific Transactions (paragraphs AG53–AG55).

Scope (paragraphs 3–5)

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

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

AG3.1 In delivering services to individuals and communities, central and local governments acquire resources and incur expenses, usually through contracts and other binding arrangements. Examples include the electricity used in delivering street lighting, the salaries paid to acquire the services of teachers, and the acquisition of non-current assets used in delivering those services. These contracts and other binding arrangements are accounted for in accordance with other PBE Standards.

Commented [CB7]: Note to Board members
Refer to Question 1 at paragraphs 4.1 and 4.2.

AG3.2 The recognition, measurement and disclosure requirements in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* apply to transfer expense transactions where specified in this Standard. However, the requirements in paragraphs 76–80 of PBE IPSAS 19 (relating to onerous contracts) can never be applicable to transfer expense transactions. This is because the definition of 'onerous contract' explicitly refers to the *exchange* of assets or services.

Commented [CB8]: Note to Board members
Inclusion of this paragraph due to Board decision - August 2024. Refer to Appendix 1 in agenda item 7.4.

Definitions (paragraphs 6–7)

Binding Arrangement

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

Transfer Expense

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

Commented [CB9]: Note to Board members
The highlighted wording has been added to allow for for-profit entities to be transfer recipients.

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

Transfer Obligation and Transfer Obligation Liability

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

Transfer Recipient

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

Transfer Right and Transfer Right Asset

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

(a) A transfer right asset is not a good or service;

(b) The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity.

(c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.

Identifying the Transfer Expense Transaction (paragraphs 8–9)

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

Binding Arrangements and Enforceability (paragraphs 10–16)

Binding Arrangement

AG11. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement.

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

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

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

DRAFT

Enforceability

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

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

AG17. A~~In the public sector, an~~ arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:

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

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

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

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

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

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

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

AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold

future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.

AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgement based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.

AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with PBE IPSAS 19.

Parties in a Binding Arrangement

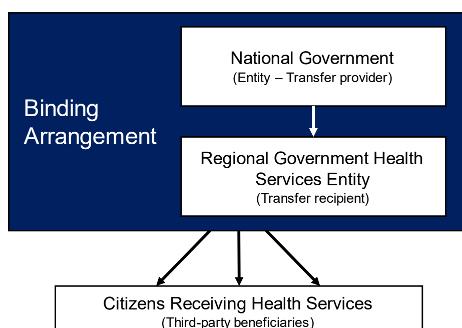
AG26. Arrangements in the not-for-profit and public sector may~~often~~ include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

AG27. That is, at a minimum, the entity must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:

AG28. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services.

AG29. However, for these multi-party arrangements to be classified as transfer expenses with binding arrangements, the entity must have the ability to compel the transfer recipient to deliver goods, services, or other assets to the third-party beneficiaries. In these multi-party arrangements, the transfer recipient is not an agent of the entity because the transfer recipient gains control of the resources from the entity and is responsible for providing goods, services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram.

DRAFT



Derecognition of the Transferred Resources (paragraphs 18 and 22)

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

(a) Prior to the transfer of a non-financial asset to a transfer recipient, the entity should consider paragraph 27(d) of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment;

(b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets is assessed continuously in accordance with the requirements of PBE IPSAS 41 *Financial Instruments*; and

(c) When the transferred resources are derecognised, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

Identifying Transfer Rights (paragraph 21)

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

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

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

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

Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs 22–25)

Recognition at Inception of a Binding Arrangement

AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognise any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.

AG36. Individual transfer rights and transfer obligations are recognised as items (assets, liabilities and expenses depending on their nature) only when or as one or more parties to the binding arrangement satisfy their stated obligations. An entity shall account for these items in accordance with paragraphs 22–25.

DRAFT

AG37. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognise any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Derecognition of the Transfer Right Asset

AG38. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the entity's corresponding transfer right is extinguished.

AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.

AG40. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgement.

AG41. In some situations, a transfer right asset may be derecognised when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26). A transfer right asset may also be derecognised if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG15).

AG42. If the entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognised upon the transfer of resources.

Recognition of a Transfer Obligation Liability

AG43. If the transfer recipient has satisfied its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date. As the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognises a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognised liability.

AG44. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.

AG45. In some binding arrangements, an entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement. If an entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to satisfy its obligations and require the entity to pay the

consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the entity to satisfy its transfer obligations.

AG46. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement.

AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for satisfaction of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for satisfaction of its obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration transferred by the entity is refundable for reasons other than the transfer recipient failing to satisfy its obligations as promised in the binding arrangement.

Interaction Between Transfer Right Assets and Transfer Obligation Liabilities

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

AG49. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognised and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognised as a transfer right asset.

Allocating the Transfer Consideration to Transfer Rights (paragraphs 38–39)

AG50. Where a binding arrangement specifies the amount of stand-alone consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).

AG51. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.

Presentation and Disclosure (paragraphs 44–61)

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

Application of Principles to Specific Transactions

Capital Transfers

AG53. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.

AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21–25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22–25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon

the transfer of resources, the entity typically recognises a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

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

DRAFT

Appendix B

Amendments to Other PBE Standards

Commented [CB10]: Note to Board members
Except for the proposed consequential amendments to PBE IPSAS 19, please refer to paragraphs 37-39 of agenda item 7.4 for discussion on this topic.

An entity shall apply the amendments in this appendix when it applies PBE IPSAS 48.

The amendments to other standards in this appendix are based on the text of those other standards, including any amendments to those standards approved when PBE IPSAS 48 was issued in [Date].

PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Paragraph 17 is amended, and paragraph 72.8 is added. New text is underlined, and deleted text is struck through.

…

Monetary Items

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

…

~~Effective Date~~Commencement and application

…

72.8. PBE IPSAS 48, issued in [date], amended paragraph 17. An entity shall apply that amendment when it applies PBE IPSAS 48.

…

PBE IPSAS 12 *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 52.8 is added. New text is underlined, and deleted text is struck through.

…

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for donation to schools or by a charity for donation to the public. In many entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. …

…

Measurement of Inventories

…

17. **Inventories shall be measured at cost, adjusted when applicable for any loss of service potential where they are held for:**

    (a) **Distribution at no charge (a transfer expense) or for a nominal charge; or**

    (b) **Consumption in the production process of goods or the rendering of services to be distributed at no charge (a transfer expense) or for a nominal charge.**

…

Distributing Goods at No Charge or for a Nominal Charge

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

Recognition as an Expense

44. **When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognised ~~when the goods are distributed or the related service is rendered~~ in accordance with PBE IPSAS 48 *Transfer Expenses*. The amount of any writedown of inventories and all losses of inventories shall be recognised as an expense in the period the writedown or loss occurs. The amount of any reversal of any writedown of inventories shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.**

…

~~Effective Date~~Commencement and application

…

52.8. PBE IPSAS 48 *Transfer Expenses*, issued in [date], amended paragraphs 11, 17, 43 and 44. An entity shall apply those amendments when it applies PBE IPSAS 48.

…

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

Question 8 to Board members

Refer to paragraphs 19–23 in agenda item 7.4. Does the Board agree with our recommended consequential amendments to PBE IPSAS 19?

Paragraphs 2.2 and 11.1–11.3 are deleted and paragraphs 34.1 (and the preceding heading), 34.2 and 112.13 are added. New text is underlined, and deleted text is struck through.

…

Scope

…

2.2 ~~**The Crown shall not apply this Standard in accounting for obligations expressed in legislation that have characteristics similar to an executory contract.**~~[Deleted by NZASB]

…

DRAFT

~~**The Crown**~~

~~11.1 Obligations of the Crown expressed in legislation that have characteristics similar to an executory contract are those where:~~

~~(a) The Crown is obligated to provide goods, services or transfers to the community in future periods using funding to be obtained from the community substantially in those future periods; and~~

~~(b) The intended third party recipients of the goods, services or transfers have not yet satisfied the criteria for entitlement to those goods, services or transfers.~~

~~11.2 These obligations of the Crown have characteristics similar to executory contracts in that the community will, collectively, provide funds to the Crown in the future under tax legislation, and the Crown will, in return, provide goods, services or transfers to the community in the future. Such obligations of the Crown include obligations to make future social welfare payments (such as to pay unemployment, domestic purposes and national superannuation benefits) and to deliver future health and education services, to the extent that the substantial funding of those benefits will be met through future taxation and other revenues and the intended recipients have not already satisfied the criteria for entitlement to those benefits. However, such obligations exclude the obligation of the Crown to fund future payments by the Government Superannuation Fund since the recipients of those future payments have already performed services giving rise to obligations.~~

~~11.3 The exclusion from the application of this Standard of obligations of the Crown that have characteristics similar to an executory contract is not intended to achieve a different result, in terms of the Crown's recognition of liabilities, from the practice followed at the date of introduction of this Standard to recognise liabilities only where the recipients of benefits to be provided in the future have already satisfied the criteria for entitlement to those benefits.~~ [Deleted by NZASB]

…

Recognition

Provisions

…

Recognition of liabilities arising from central and local government existing public policies, budget policies, election promises or statements of intent

34.1 This paragraph and paragraph 34.2 relate to the recognition by a central or local government of a liability arising from a local government or central government existing public policy, budget policy, election promise or statement of intent. The intention of such entities to provide goods, services or cash transfers to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation. A liability would be recognised only when the entity is committed in the sense that it has little or no realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. For example, a present obligation for social welfare payments at the reporting date arises only when the intended recipients have satisfied the criteria for entitlement to those payments for a payment period that occurs before or encompasses the reporting date.

34.2 Under certain circumstances, a legal or constructive obligation may arise from some such transactions or events where the central or local government has little, if any, realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster where, following such an event, a government has issued a clear and formal policy to provide financial aid to victims of that disaster, with such a policy containing sufficiently specific details to have raised a valid expectation in those affected that the government will provide this aid. However, the liability is recognised only when the amount of financial aid to be provided can be measured reliably.

…

112.13. PBE IPSAS 48 *Transfer Expenses*, issued in [date], added paragraphs 34.1–34.2 and deleted paragraphs 2.2 and 11.1–11.3. An entity shall apply those amendments when it applies PBE IPSAS 48.

PBE IPSAS 28 *Financial Instruments: Presentation*

Paragraph 62.9 is added and paragraph AG23 is amended. New text is underlined and deleted text is struck through.

…

~~Effective Date~~Commencement and application

…

62.9. PBE IPSAS 48 *Transfer Expenses*, issued in [date], amended paragraph AG23. An entity shall apply that amendment when it applies PBE IPSAS 48.

Application Guidance

…

Definitions (paragraphs 9–12)

Financial Assets and Financial Liabilities

…

AG23.Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with PBE IAS 12 *Income Taxes*.
- Obligations to provide social welfare ~~benefits~~payments are accounted for in accordance with ~~PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* and PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*~~ PBE IPSAS 48 *Transfer Expenses*.
- Other statutory obligations are accounted for in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

…

PBE IPSAS 40 *PBE Combinations*

Paragraphs IE164, IE265, IE264 and IE265 are amended, and paragraph IE266 is deleted. New text is underlined, and deleted text is struck through.

…

Illustrative Examples

…

Accounting for Amalgamations

…

Eliminating Transactions between the Combining Operations – Transfers

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

…

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognised a liability of CU350 in respect of its performance obligation, in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. ~~Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognise an asset in respect~~

of the grant, but accounted for the full CU700 as an expense. Upon the transfer of funds, COA recognised a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognises CU350 of the transfer right asset and recognises the amount as a transfer expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party or an enforceable right to have an external party deliver training courses. The resulting entity does not recognise a liability for the CU350, but instead recognises this amount in net assets/equity.

…

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

IE265. In this example, AE calculates a gain of CU600. The gain is calculated as the liability assumed that is derecognised because, as a result of the acquisition, AE eliminates the liability of CU600 against the transfer right asset of CU600, as there is no longer an obligation owed to a third party or the enforceable right to have an external party deliver training courses.

IE266. In this example, no corresponding asset had been recognised by AE; if AE had previously recognised a corresponding asset, this would be derecognised at the acquisition date, and the derecognised amount would be included in the calculation of the gain or loss. [Deleted by IPSASB]

…

XRB A1 *Application of the Accounting Standards Framework*

The accounting standards table in Appendix C is amended. New text is underlined.

APPENDIX C

Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements to be applied by public benefit entities

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the accounting standards and authoritative notices that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs.

Accounting standards

(…)	
PBE IPSAS 41	*Financial Instruments*
PBE IPSAS 48	*Transfer Expenses*
PBE IFRS 4	*Insurance Contracts* (superseded on adoption of PBE IFRS 17 for not-for-profit entities)
(…)	

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 48.

[to be drafted for the Board's December 2024 meeting]

DRAFT

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 48.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a 'capital transfer'?

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

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

Section B: Identifying the Transfer Expense Transaction

B.1 Identify Whether a Binding Arrangement Exists

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

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

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

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

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

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence) or equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

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

B.3 Enforceability: Transfers Subject to Appropriations

Can an appropriation give rise to a transfer expense?

An appropriation is an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure for purposes specified by the legislature or similar authority.

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

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

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

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

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

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

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

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of an entity;

(b) The exercise of that authority has occurred. In essence, a decision by the approved enabling authority clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised

Commented [CB11]: Note to Board members
In IPSAS 48, this paragraphs reads as follows:

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

The amendment to this implementation guidance is due to a previous Board decision - May 2024. Refer to Appendix 1 in agenda item 7.4. This amendment is discussed further in agenda item 7.2.

DRAFT

resources, and consequently the entity has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the completion of an appropriation process.

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

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

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

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

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

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

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

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

Section C: Transfer Expenses from Transactions without Binding Arrangements

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

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

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

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

Section D: Transfer Expenses from Transactions with Binding Arrangements

D.1 Identifying Transfer Rights in a Binding Arrangement

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

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within

a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional judgement as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

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

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

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

(a) The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;

(b) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and

(c) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

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

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

E.1 Derecognition of a Transfer Right Asset

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

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

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

(b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and

(c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations ~~in the public sector~~ where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, some binding arrangements may specify that the extinguishment of an entity's transfer right depends on the satisfaction of the ultimate transfer recipient's compliance obligations. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from

DRAFT

one entity to the next. An entity will need to consider the terms of the binding arrangements and any relevant facts and circumstance to determine when to derecognise its transfer right assets.

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

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

F.1 Allocating the Transfer Consideration to Transfer Rights

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

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

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

Section G: Multi-Year Arrangements

G.1 Accounting for Multi-Year Arrangements

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

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

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

Illustrative Examples

Question 9 to Board members

Refer to paragraphs 40–43 in agenda item 7.4. Does the Board agree with the drafting of the illustrative examples, which are substantively aligned with the IPSAS 48 illustrative examples?

Note: for ease of reading, non-substantive changes to the examples have not been highlighted.

These examples accompany, but are not part of, PBE IPSAS 48.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in PBE IPSAS 48 *Transfer Expenses* to particular transfer expense transactions, based on the given facts. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying PBE IPSAS 48.

Scope

IE2. Examples 1–2 illustrate the requirements in paragraphs 3–5 of PBE IPSAS 48 on the determination of whether a transaction is within the scope of PBE IPSAS 48.

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

IE3. An international organisation enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.[6] Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A – Vehicle is Provided to the International Organisation

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

IE5. The binding arrangement does not give rise to a transfer expense of the international organisation, as the international organisation directly receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of PBE IPSAS 48. The international organisation applies PBE IPSAS 17 *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs and maintenance.

Case B – Vehicle is Provided to a Local Government

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

IE7. The binding arrangement gives rise to a transfer expense of the international organisation, as the international organisation transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the local government, a third-party beneficiary.) The international organisation (the transfer provider) applies paragraphs 21–43 of PBE IPSAS 48 in accounting for the transfer, as it arises from a binding arrangement.

Example 2: Research Grants

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

Case A—Central Government Controls Research

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

[6] In these examples, monetary amounts are denominated in 'currency units' (CU).

IE10. The binding arrangement does not give rise to a transfer expense of the central government, as the central government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of PBE IPSAS 48. The central government applies PBE IPSAS 31 *Intangible Assets*, in accounting for the binding arrangement.

Case B—University Controls Research

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

IE12. The binding arrangement gives rise to a transfer expense of the central government, as the central government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The central government (the transfer provider) applies paragraphs 21–43 of PBE IPSAS 48 in accounting for the transaction, as it arises from a binding arrangement.

Binding Arrangements and Enforceability

IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10–16 of PBE IPSAS 48.

Example 3: Identifying Whether a Binding Arrangement Exists

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

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

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

IE16. The central government has a financial year end of 30 June. On 15 September 20X1, the central government (the transfer provider) enters into an arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution. CU10 million is to be transferred in the 20X2 financial year, and the remaining CU5 million to be transferred in the 20X3 financial year. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.

IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million on 31 March 20X2 and the central government immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in the 20X2 financial year but will be considered in the following year as part of the appropriation process for the 20X3 financial year.

IE18. In determining the effect of the appropriation on the arrangement, the central government considers substance over form, in accordance with paragraphs 10–16 and AG11–AG25.

Case A – Requirement to Complete the Appropriation Process has Substance

IE19. The reduction in air pollution is a local government responsibility, and there is no authorising legislation that requires the central government to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.

DRAFT

IE20. The central government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in the 20X2 financial year and CU5 million in the 20X3 financial year) until the appropriation process is completed. Consequently, in the 20X2 financial year, the central government only recognises an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations up to 31 March 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the central government would instead recognise a transfer right asset of CU10 million.

IE21. On 31 October 20X2, parliament completes the appropriation process for the remaining CU5 million. At this date, the central government applies paragraphs 21–26 of PBE IPSAS 48 to assess the accounting implications for the remaining CU5 million.

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

IE22. In this scenario, the reduction of air pollution is a priority of both the central and local governments, and there is legislation in place which requires the central government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the central government is required by law to complete the appropriation for the CU15 million transfer.

IE23. The central government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the central government is required by law to complete the appropriation for the CU15 million transfer. Upon execution of the binding arrangement, the central government applies paragraphs 21–26 of PBE IPSAS 48 in determining when to recognise a transfer right asset or a transfer expense.

Transfer Expenses from Transactions with Binding Arrangements

IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of PBE IPSAS 48.

Example 5: Determining Whether Goods or Services are Distinct

Case A – Goods or Services are not Distinct

IE25. A local government enters into a binding arrangement with Entity A, for Entity A to build a new community centre. Under the terms of the binding arrangement, Entity A has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

IE26. To determine if the binding arrangement has more than one transfer right, the local government applies paragraphs 21, AG31–AG34 and considers the factors discussed in Implementation Guidance D.1 of PBE IPSAS 48 to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

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

IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of PBE IPSAS 48, the local government aggregates these related rights into a single transfer right.

Case B – Goods or Services are Distinct

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

(a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programmes);

DRAFT

(b) Website-related services;

(c) Unspecified software updates for security purposes; and

(d) Technical support (online and telephone) to the University's faculty and staff.

IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.

IE31. The Local Government assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of PBE IPSAS 48. In making this assessment, the Local Government applies the guidance in paragraphs AG31–AG34 of PBE IPSAS 48.

IE32. The Local Government observes that:

(a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;

(b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the licence and services can be separately enforced; and

(c) The goods or services are neither highly interdependent nor highly interrelated. The Local Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.

IE33. The Local Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralise the University's purchasing process and potentially negotiate a discount by bundling the licence with services.

IE34. On the basis of the above assessment, the Local Government identifies four transfer rights in the binding arrangement for the following goods or services:

(a) The productivity software;

(b) Website-related services;

(c) Security updates; and

(d) Technical support.

Recognition of Transfer Expenses

IE35. Examples 6–8 illustrate the requirements in paragraphs 22–25 on the overall accounting model for transfer expenses from transactions with binding arrangements:

(a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;

(b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and

(c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of PBE IPSAS 48.

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

IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a local government office (the Local Government) entered into a binding arrangement with an IT services agency (the Agency) to provide certain goods and services to a university in the region (the University). In Examples 5 and 10, the Local Government determined that its transfer rights in the binding arrangement and its allocation of the transfer consideration are as follows:

(a) The productivity software for CU6 million;

(b) Website-related services for CU2 million;

(c) Security updates for CU3 million; and

(d) Technical support for CU1 million.

IE37. The binding arrangement specifies that the transfer of the software occurs and the service period begins upon payment of the entire CU12 million by the Local Government (i.e., the Local Government pays upfront). Upon payment of the CU12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.

IE38. The Local Government recognises the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognised based on the nature of each transfer right:

(a) Productivity software – The Local Government observes that the Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software licence was extinguished once the software was provided to the University, and CU6 million of the transfer right asset should be expensed at that time;

(b) Website-related services – The Local Government observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognise CU2 million of the transfer right asset while recognising a transfer expense over time during the two-year period (e.g., amortising CU83,333 into expenses each month over the two-year period);

(c) Security updates, and technical support services – The Local Government's remaining transfer rights relate to services that are performed on an as-needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognise the CU4 million while recognising a transfer expense over time during the two-year period. (e.g., amortising CU166,667 into expenses each month over the two-year period).

Example 7: Recognition of a Transfer Obligation Liability

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

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

IE41. Upon finalisation of student enrolment, the enrolment numbers were provided to the Publisher, and 19,800 textbooks were shipped to the Schools. To account for this binding arrangement, the Council applies paragraphs 22–25 of PBE IPSAS 48:

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

DRAFT

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

Transfer right asset	CU59,400	
Cash		CU59,400

(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the textbooks to the Schools, and the Council's right to have the textbooks delivered has been extinguished. The Council derecognises the transfer right asset of CU59,400 and records the amount as a transfer expense. In addition, the Council also recognises a transfer obligation liability and a transfer expense for the unpaid consideration of CU534,600 (CU30 × 19,800 books – CU59,400 deposit) based on the terms of the binding arrangement:[7]

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

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

IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a corporation that operates a number of private clinics in a region (the Corporation). Under the terms of the binding arrangement, the Ministry will provide an upfront payment of CU1 million to the Corporation for the Corporation to operate a vaccination programme and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Corporation is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

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

Case A – The Corporation Decides to Stop the Vaccination Programme

IE44. Upon paying the CU1 million, the Ministry recognises a transfer right asset for the right to have the Corporation's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Corporation purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Corporation observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Corporation makes a business decision and informs the Ministry that it will stop administering the vaccines.

IE45. For the vaccines that have been administered, the Ministry derecognises CU50,000 of the transfer right asset and recognises a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies paragraph 26 of PBE IPSAS 48 and:

(a) Derecognise the transfer right asset of CU950,000; and

(b) Recognise a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Corporation has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of PBE IPSAS 41 *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in PBE IPSAS 41 and is no longer within the scope of PBE IPSAS 48.

---

[7] It should be noted that PBE IPSAS 48 does not prohibit the Government from using alternative descriptions in its financial statements for the terms 'transfer right asset', 'transfer obligation liability', or 'transfer expense'.

DRAFT

Case B – A Force Majeure Event Prevents the Administration of 10,000 Doses

IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognises the amount as a transfer right asset. In this scenario, the Corporation also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Corporation informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination programme and administer the remaining 9,000 within 12 months.

IE47. Like Case A, the Ministry derecognises CU50,000 of the transfer right asset and recognises a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed in the earthquake. In addition, the Corporation has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of PBE IPSAS 48 and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Corporation's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with PBE IPSAS 21 and reduces its transfer right asset to CU900,000.

Modifications to a Binding Arrangement

IE49. Example 9 illustrates the requirements in paragraphs 27–29 of PBE IPSAS 48 on binding arrangement modifications. In addition, Case C of this example illustrates the requirements to estimate variable consideration in paragraphs 35–37 of PBE IPSAS 48, as well as the requirements on changes in transfer consideration in paragraphs 40–42. Cases A, B, and C all build on the fact pattern outlined in paragraphs IE50–IE51 but are each independent from each other.

Example 9: Modifications to a Construction Arrangement

IE50. The Ministry of Housing and Urban Development (Housing, the transfer provider) enters into a binding arrangement with Entity A (the transfer recipient) for Entity A to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million. In accordance with paragraph 25 of PBE IPSAS 48 and based on the terms of the binding arrangement, Housing accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.

IE51. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, Housing assesses that Entity A has completed 60% of the building's construction based on the surveyor's report. Consequently, the expenses recognised by Housing for the first year are CU600,000 (transfer consideration of CU1 million x 60%).

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

IE52. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the transfer consideration increases by CU150,000 and the total transfer consideration after the modification is CU1,150,000. In assessing the modification to the binding arrangement, Housing evaluates paragraph (a) of PBE IPSAS 48 and concludes that the upcoming construction based on the revised floor plan remains a single transfer right rather than any additional transfer rights, because the modification does not result in the acceptance of additional distinct compliance obligations by Entity A or an increase in Entity A's existing compliance obligations.

IE53. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement in accordance with paragraph 29 of PBE IPSAS 48. Based on an updated quantity surveyor's report, Housing updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result, Housing recognises additional expenses of CU9,500 [(53% complete × CU1,150,000 modified transaction consideration) – CU600,000 expenses recognised to date] at the date of the modification as a cumulative catch-up adjustment in the statement of comprehensive revenue and expense.

Case B – Modification Resulting in a New Binding Arrangement

IE54. Continuing with the facts presented in paragraphs IE50–IE51, in the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of CU100,000 for the construction of a parking lot to be located next to the residential building.

IE55. Housing determines that this modification results in a separate binding arrangement because:

(a) The construction of the parking lot is a new transfer right, as Housing can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right as noted in paragraph AG32 of PBE IPSAS 48; and

(b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Entity A for the construction of the parking lot.

IE56. As a result, Housing continues to account for the transfer relating to the construction of the residential building in the manner described in paragraphs IE50–IE51. The CU100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

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

IE57. Modifying the facts presented in paragraphs IE50–IE51, at the inception of the binding arrangement, Housing also agreed to pay a bonus of CU200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.

IE58. Completion of the building is highly susceptible to factors outside Entity A's influence, including weather conditions and regulatory approvals. In addition, Entity A has limited experience with similar types of binding arrangements. Based on these factors, Housing excluded the CU200,000 bonus from the transfer consideration at the inception of the binding arrangement.

IE59. At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely. As a result, Housing concludes that payment of the bonus is now probable and adjusts the transfer consideration to CU1,200,000.

IE60. The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. Housing accounts for the probable payment of the bonus by applying paragraph 41 of PBE IPSAS 48 and allocates the CU200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, Housing expenses an additional CU120,000 for the probable bonus payment as a cumulative catch-up adjustment ((CU1.2 million x 60%) – CU600,000 expense recognised to date).

Measurement

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

Example 10: Allocation of Transfer Consideration

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

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

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

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

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

(a) Productivity software: CU6 million;

(b) Website-related services: CU2 million;

(c) Security updates: CU3 million; and

(d) Technical support: CU1 million.

Case B – Binding Arrangement Only Specifies the Total Transfer Consideration

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

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

IE68. Using this approach, the Local Government allocates the transfer consideration as follows:

(a) Productivity software: CU4.8 million (CU6 million ÷ CU15 million × CU12 million);

(b) Website-related services: CU3.2 million (CU4 million ÷ CU15 million × CU12 million);

(c) Security updates: CU2.4 million (CU3 million ÷ CU15 million × CU12 million); and

(d) Technical support: CU1.6 million (CU2 million ÷ CU15 million × CU12 million).

Application of Principles to Specific Transactions

IE69. Example 11 illustrates the application of paragraphs AG53–AG55 of PBE IPSAS 48 to capital transfers.

Example 11: Capital Transfers

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

IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:

(a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

(i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities;

(ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.

DRAFT

IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.

IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognises a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.

IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognised and expensed throughout the construction period.

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

IE74. In this example, the binding arrangement states that:

(a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from PBE IPSAS 48, Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.

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

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

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

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

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

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.

IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will recognise the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.

IE80. The additional CU5 million penalty is not recognised by Entity P because its receipt is contingent on Entity R ceasing to operate the building as a public library. Such a contingent asset is not recognised in accordance with PBE IPSAS 19.

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

IE81. The following scenario is independent from Cases A–C and illustrates the accounting for a transfer without a capital transfer component.

IE82. In this scenario:

(a) Entity R already owns the building;

(b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidise the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalisation of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity R that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a public library over a 10-year period. Upon initial payment, Entity P recognises the CU10 million as a transfer right asset.

IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognises the transfer right asset evenly over the 10-year period and recognises a transfer expense of CU1 million per year.

DRAFT

Comparison with IPSAS 48

PBE IPSAS 48 *Transfer Expenses* is drawn from IPSAS 48 *Transfer Expenses.*

The significant differences between PBE IPSAS 48 and IPSAS 48 are:

(a) IPSAS 48 excludes from its scope social benefits as defined in IPSAS 42 *Social Benefits*. In contrast, PBE IPSAS 48 does not contain such a scope exclusion.

(b) PBE IPSAS 48 includes consequential amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. These amendments:

  (i) remove the scope exclusion relating to certain obligations of the Crown expressed in legislation that have characteristics similar to an executory contract and

  (ii) add authoritative guidance on the recognition of liabilities arising from local and central government existing public policies, budget polies, election promises or statements of intent, drawing on the principles of PBE IPSAS 19.

(c) PBE IPSAS 48 includes RDR concessions for public benefit entities in Tier 2.

(d) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	4 October 2024
To:	NZASB Members
From:	Leana van Heerden
Subject:	**IASB Illustrative Example ED on *Climate-Related and Other Uncertainties in the Financial Statements***

COVER SHEET

Project priority and complexity

Project purpose	To undertake targeted action to improve the application of requirements in IFRS Accounting Standards relating to reporting on the effects of climate-related and other uncertainties, so that financial statements can more effectively communicate information on these matters.
Cost/benefit consideration	The project is expected to contribute positively to the quality of financial reporting and its usefulness for decision-making. A cost/benefit analysis of this project was included in the NZASB August 2024 Board papers.
Project priority	**Medium** Assessing the impact of climate-related risks on the financial statements is a topical matter in New Zealand. The IASB's forthcoming ED proposing illustrative examples may provide clarity on the application of existing requirements in IFRS Accounting Standards in considering the impact of climate-related and other uncertainties on the accounting for various line items in the financial statements as well as disclosures.

Overview of agenda item

Project status	Exposure Draft → (Comment letter) → International pronouncement → Due Process → (PBE policy approach) → Final NZ pronouncement International / New Zealand
Board action required	**Low complexity** NOTE the update on consultation activities and provide FEEDBACK on the IASB Exposure Draft (ED).

Purpose and introduction[1]

1. This memo provides a summary of the IASB's Illustrative Example Exposure Draft on *Climate-related and Other Uncertainties in Financial Statements* (IASB/ED/2024/6). This follows the update provided in our previous meeting, where the Exposure Draft had not yet been issued.

2. Additionally, we provide an update on the outreach activities undertaken to date, as well as upcoming activities. We also share the feedback received so far, which will be used to inform our comment letter on this ED.

Recommendation

3. The Board is requested to:

   (a) NOTE our update on consultation activities and the summary of feedback received so far, which will be used to inform our draft comment letter; and

   (b) Provide specific FEEDBACK on the IASB ED in its entirety, as well as on each of the individual illustrative examples included in the ED, so that these can be incorporated into our draft comment letter.

Structure of this memo

4. This memo includes the following sections.

   (a) Background

   (b) Consultation activities

   (c) Summary of feedback heard so far

   (d) Next steps

   (e) Questions to the Board

   Appendix 1: Summary of Illustrative Examples

Background

5. This IASB project was commenced in March 2023 in response to the IASB's Third Agenda Consultation, after stakeholders expressed views that there may be inconsistent application and insufficient disclosures when entities are reporting on climate-related risks in financial statements. The purpose of this IASB maintenance project is to explore whether and, if so, how targeted actions could improve the reporting of financial information about climate-related and other uncertainties in the financial statements.

6. In September 2023 the IASB identified targeted actions to be explored to improve the reporting on climate-related and other uncertainties in financial statements. The aim of the project is neither to create a new IFRS Accounting Standard on climate-related risks, nor to

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

change the objectives of financial statements or the definitions of assets and liabilities. These targeted actions were discussed during the November 2023 TRG meeting.

7. One of the targeted actions is the addition of illustrative examples (IEs) to demonstrate how to apply the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements. In July 2024, the IASB released the ED (refer to agenda item 8.2) which proposes that eight IEs be included with IFRS Accounting Standards, rather than as educational materials or part of the requirement of the Standards themselves.

8. A summary of each IE is included in Appendix 1. The examples primarily focus on:
   - Materiality judgements;
   - Disclosure of assumptions and other sources of estimation uncertainty;
   - Credit risk disclosures; and
   - Disaggregated information.

9. The development of these IEs involved collaboration with members of the International Sustainability Standards Board (ISSB) and its technical staff. The process entailed designing fact patterns that are compatible with the requirements in IFRS Sustainability Disclosure Standards, and consistent use of terminology, where applicable and appropriate.

Consultation activities

10. To date, we have undertaken, or are in the process of undertaking, the following:

    (a) The ED has been published on our website and featured in the XRB newsletter, Pitopito kōrero in September 2024, to inform and solicit feedback.

    (b) We have scheduled a roundtable event on 29 October with approximately 10 climate-reporting entity preparers to understand the challenges they face in incorporating climate-related matters into their financial statements and to gather their feedback on the illustrative examples in the ED.

    (c) We have engaged in direct discussions with TRG members as well as XRB Sustainability team members.

    (d) We attended an AASB virtual roundtable events on this topic.

    (e) Michelle Lombaard and Carolyn Cordery attended events during the WSS and IFASS breakout sessions and ASAF meeting in London focused on this topic.

Summary of the feedback heard so far

11. Almost all stakeholders appreciate the initiative, recognising the increased significance of reflecting climate-related and other uncertainties within financial statement disclosures. Stakeholders agree that providing illustrative examples would enhance reporting by offering preparers guidance on the applicable requirements and providing clarity on key disclosures. However, several key themes and concerns have emerged.

12. Some of the examples have been perceived as overly simplified and tailored to specific IFRS Accounting Standard requirements, which may not offer much practical guidance for entities already familiar with the standards and looking for new information to help them improve their disclosures.

13. There is a consensus that the examples should cover a broader range of nuanced scenarios, from simple to complex, to be more reflective of actual business practices. Stakeholders also highlighted the need for walk-through examples that challenge the existing reporting norms and demonstrate practical application. Additionally, there is a call for the examples to incorporate interrelated transition risks, as they appear in real-world situations.

14. The IASB has expanded this project to include 'other uncertainties,' demonstrating that these illustrative examples are intended to apply beyond climate-related matters. However, aside from Example 5, none of the other examples fully incorporate or address 'other uncertainties'. Given the broad range of other uncertainties—such as geopolitical risks, technological disruptions, and supply chain challenges—that can significantly impact financial reporting, we believe it would be beneficial to add new examples or expand on the existing ones, to more specifically and comprehensively address other uncertainties.

15. To further strengthen the practical utility of these examples, an example illustrating the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, specifically addressing whether, and in what circumstances, climate-related disclosures in the financial statements might lead to the identification of a prior year error versus a change in estimate. Given the evolving understanding of climate-related risks and their financial impact, and the likelihood that climate-related disclosures may require more regular restatements to previously reported information as facts and impacts becomes known over time, entities may face challenges in determining whether that climate-related information should be treated as a correction of an error or a revision of estimates for financial reporting purposes.

16. Specific feedback on the IEs included:

- **Example 1 and 2:** Stakeholders find these examples useful in showing when entities need to disclose why there is no impact, especially for qualitative factors. However, they recommend expanding the examples to consider broader dimensions of interrelated transition risks.

- **Example 3:** This example emphasizes the importance of disclosing key assumptions for asset recoverability but may offer limited practical guidance. Entities face challenges in developing verifiable estimates, and the example's assumptions about creating estimates for future emission and regulatory costs might create unrealistic expectations. It also focuses only on assumptions around carbon emission costs without considering transition opportunities.

- **Example 4:** While useful in clarifying that IAS 1 paragraph 125 requires entities to disclose assumptions about the future and other major sources of estimation uncertainty that may significantly impact asset and liability amounts within the next financial, stakeholders caution against overextending the scope of IAS 1, which could lead to excessive disclosures.

- **Example 5:** Stakeholders appreciate the focus on uncertainties beyond climate-related risks but suggest that the example should also acknowledge that the change in regulation may also impact other line items in the entity's financial position, such as asset recoverability.
- **Example 6:** Similar to Example 3, estimating expected credit losses, which may involve assumptions about unpredictable forward-looking information, is challenging in practice. Additionally, the impact of climate events is unlikely to be confined to just two portfolios, but rather will have broader effects across entire geographic regions. This example presents an opportunity to more accurately illustrate the knock-on effects of climate events as they occur in real-world situations.
- **Example 7:** No specific feedback was received on IE 7 from stakeholders.
- **Example 8:** The example is beneficial as it addresses the new disaggregation requirements under IFRS 18. However, disaggregated information may be sensitive for some stakeholders. Practical disaggregation challenges may include separating assets into environmentally friendly categories and dealing with integrated asset structures.

17. Overall, while the IEs in the IASB ED are a valuable starting point, stakeholders believe that expanding and refining these examples will better demonstrate the connection with climate reporting standards and provide more practical guidance for preparers.

18. As an additional comments, to further improve accessibility, as suggested in paragraph BC45, we believe it would be beneficial to also publish the final illustrative examples relating to climate-related and other uncertainties in financial statements into one single, centralised document. This centralised document should also reference other complementary IASB material, such as IFRS Practice Statement 2: Making Materiality Judgements, and Educational Material: Effects of climate-related matters on financial statements, to make it easier for preparers to navigate climate-related financial reporting guidance from one complete source.

ASAF conference notes (not covered in the points above)

19. During the ASAF conference in London, this ED was discussed. Concerns were raised that the ED may push the boundaries of IAS 1 (specifically paragraph 31) beyond its intended scope. While IAS 1 is traditionally applied by assessing whether the financial statements as a whole present a fair view, the examples in the ED suggest a shift towards an item-by-item analysis of disclosures. This has led to concerns that such an approach could result in over-disclosure, increasing complexity and the risk of information overload, potentially distorting the intended application of IAS 1 by encouraging excessive focus on individual line items rather than the overall presentation of the financial statements.

Next steps

17. The feedback received to date will be used to inform our comment letter. The letter will also include comments received from the Board, feedback obtained during the roundtable meeting on 29 October, comments received through formal submissions, as well as any other information obtained through other channels.

18. We will close the New Zealand comment period on Friday 25 October 2024. Submissions to the IASB on the ED close on Thursday 28 November 2024. We expect to complete a draft comment letter by Monday 11 November 2024. At that point, we will pass the draft letter to the Chair and circulate to the Board for comments. If the Board would find it useful, we can schedule an out-of-session meeting to discuss the comment letter.

19. We would appreciate any final comments are provided by Monday 18 November 2024 allowing the finalisation and formal approval of the final comment letter, via circular resolution, before 28 November.

Questions for the Board

Q1. Does the Board have FEEDBACK on:

   a. The IASB Exposure Draft (ED) as a whole, including ED questions 1 and 3;

   b. ED question 2, including comments on the individual illustrative examples 1 – 8 included in the ED and summarised in Appendix 1.

Q2. Would the Board prefer an out-of-session meeting to discuss the draft comment letter on the IASB ED, or would a circular resolution be sufficient?

Appendix 1: Summary of Illustrative Examples

IE Nr.	Description	IFRS Acc Std para.
Materiality judgements		
1	*Materiality judgements leading to additional disclosures* An entity in a capital-intensive industry exposed to climate-related transition risks has developed a plan to reduce greenhouse gas emissions through future investments and changes in manufacturing methods. Although this plan is disclosed in its general-purpose financial report, the entity assesses that it has no immediate effect on the recognition or measurement of its assets and liabilities due to nearly fully depreciated manufacturing facilities, excess recoverable amounts of cash-generating units, and no asset retirement obligations. While IFRS Accounting Standards do not require specific disclosures about the plan's effects, the entity considers IAS 1 paragraph 31 and determines that additional disclosure is necessary to clarify that the plan has no impact on its financial position and performance, thereby considering the materiality of such information to the users of the financial statements (i.e. more likely to influence user's decision making). Consequently, the entity discloses the lack of effect and provides an explanation.	IAS 1 *Presentation of financial statements* para. 31.
2	*Materiality judgements that do not lead to additional disclosures* A service provider operating in an industry with minimal climate-related transition risks discloses its low greenhouse gas emissions and renewable energy use in a general-purpose financial report, separate from its financial statements. The entity's assessment of its greenhouse gas emissions policy reveals no significant impact on the financial recognition and measurement of its assets, liabilities, or income and expenses. Furthermore, it concludes that additional disclosures about the policy's effect on its financial position and performance are not required by IFRS Accounting Standards and would not materially influence the decisions of the financial statements' users. Given the industry's limited risk exposure and the entity's existing disclosures, it opts not to provide further details in its financial statements.	IAS 1 para. 31 (linked above).

Assumptions and other sources of estimation uncertainty		
3	*Value in use calculation and disclosures* An entity with high greenhouse gas emissions, subject to regulatory costs for emission allowances, anticipates broader future regulations. It has allocated significant goodwill to a cash-generating unit (CGU) sensitive to future emission allowance costs, which are key assumptions in its annual impairment tests. When measuring the CGU's value in use, the entity bases cash flow projections on management's best estimates which includes future emission allowance cost assumptions. It discloses these assumptions and their estimation methods. Additionally, the entity evaluates whether changes in these assumptions could lead to impairment, disclosing the CGU's recoverable amount, the values of key assumptions, and the required change in these values for the recoverable to equal the carrying amounts (i.e. sensitivity analysis).	IAS 36 *Impairment of assets* para. 134 (d) (i – ii) and 134 (f).
4	*Disclosure of assumptions and other sources of estimation uncertainty* In a capital-intensive industry, the entity faces climate-related transition risks that could impact the recoverability of its non-current assets. During the reporting period, potential impairment indicators led the entity to test a CGU (without goodwill or intangibles) for impairment, concluding no impairment was necessary as the CGU's recoverable amount exceeded its carrying amount. Despite this, the entity recognized that some assumptions used in the CGU's valuation, such as future legal developments and commodity prices, posed significant risks of material adjustments in the next financial year. Although IFRS Accounting Standards do not mandate disclosure for CGUs without goodwill or intangible assets, the entity, guided by IAS 1 paragraphs 125 - 129, disclosed qualitative and quantitative information about the assumptions due to their potential impact.	IAS 1 para. 125 – 129 (linked above).
5	*Disclosure about future assumptions* An entity operating in a jurisdiction where upcoming regulations might impact its profitability and ability to recover the carrying amount of its deferred tax asset must evaluate the implications. Although the regulation hasn't been enacted and is not expected to be discussed for two years, the entity assumes it will become effective after utilizing its tax losses, leading to the recognition of the deferred tax asset. IFRS Accounting Standards do not mandate disclosure of these assumptions, but IAS 1 requires the entity to consider whether additional disclosure is necessary for transparency. To ensure users understand the potential impact of the regulation on its financial position, the entity decides to disclose the assumption that the regulation will be delayed and the resulting effect on the deferred tax asset.	IAS 1 para. 31 (linked above).

6	*Credit risk disclosures* A financial institution assesses the impact of climate-related risks on its credit risk exposures, identifying two loan portfolios—agricultural loans vulnerable to droughts and corporate real estate loans secured by properties in flood-prone areas—as requiring close monitoring and risk mitigation. In accordance with IFRS 7, the institution determines that disclosing information about these climate-related risks is material due to the size of the affected portfolios, the significant impact of these risks on credit exposure, and relevant external factors. The entity provides detailed disclosures, including explanations of how climate-related risks influence credit risk management practices, the recognition and measurement of expected credit losses, and how these risks are incorporated into estimation techniques. Additionally, the institution discloses information on collateral subject to climate risks and concentrations of climate-related risk.	IFRS 7 Financial Instruments para. 35A – 38.
7	*Disclosures about decommissioning and restoration provisions* A petrochemicals manufacturer with plant decommissioning and site restoration obligations assumes that its facilities will operate for a very long time, making the present value of these future costs immaterial. However, due to the transition to a lower-carbon economy, there is a growing risk that some facilities might need to close earlier than expected, which would incur significant costs. Despite the immaterial carrying amount of the provision, the entity deems the related obligations material and, in accordance with IAS 37, discloses details about the nature and timing of these obligations, the uncertainties involved, and key assumptions about future facility use.	IAS 37 *Provisions, contingent Liabilities and Contingent Assets* para. 85
Aggregation and disaggregation		
8	*Disclosure of disaggregated information due to dissimilar climate-related risk characteristics* An entity with property, plant, and equipment (PP&E) that includes both high-emission and low-emission assets operates in an industry highly exposed to climate-related transition risks. Despite investing in lower-emission PP&E, the entity continues to rely on high-emission PP&E for a large portion of its operations. Given the significantly different vulnerabilities of these two asset types to future regulations, changes in consumer demand, and the ability to recover their carrying amounts, the entity concludes that disaggregating information about these assets in its financial statements would provide material insights. Following IFRS 18 and IAS 16, the entity disaggregates the notes on PP&E to reflect the distinct risks associated with each type.	IFRS 18 *Presentation and disclosure in financial statements* para. 41 – 42 and B110.

IFRS
Accounting

July 2024

Exposure Draft

IFRS® Accounting Standard

Climate-related and Other Uncertainties in the Financial Statements

Proposed illustrative examples

Comments to be received by 28 November 2024

International Accounting Standards Board

IASB/ED/2024/6

Exposure Draft

Climate-related and Other Uncertainties in the Financial Statements

Proposed illustrative examples

Comments to be received by 28 November 2024

Exposure Draft IASB/ED/2024/6 is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **28 November 2024** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

Disclaimer: To the extent permitted by applicable law, the International Accounting Standards Board (IASB) and the Foundation expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

© 2024 IFRS Foundation

All rights reserved. Reproduction and use rights are strictly limited. Please contact the Foundation for further details at permissions@ifrs.org.

Copies of IASB publications may be ordered from the Foundation by emailing customerservices@ifrs.org or by visiting our shop at https://shop.ifrs.org.

The Foundation has trade marks registered around the world including ‘IAS®’, ‘IASB®’, the IASB® logo, ‘IFRIC®’, ‘IFRS®’, the IFRS® logo, ‘IFRS for SMEs®’, the IFRS for SMEs® logo, the ‘Hexagon Device’, ‘International Accounting Standards®’, ‘International Financial Reporting Standards®’, ‘NIIF®’, ‘SIC®’, ‘ISSB™’ and ‘SASB®’. Further details of the Foundation’s trade marks are available from the Foundation on request.

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD.

Contents

	from page
INTRODUCTION	**4**
INVITATION TO COMMENT	**5**
[DRAFT] ILLUSTRATIVE EXAMPLES	**7**
APPROVAL BY THE IASB OF EXPOSURE DRAFT *CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS* PUBLISHED IN JULY 2024	**24**
BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT *CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS*	**25**

Introduction

Why is the IASB publishing this Exposure Draft?

In March 2023, the International Accounting Standards Board (IASB) added to its work plan a project to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements.

The IASB decided to work on this project because of strong demand from respondents to its Third Agenda Consultation. These respondents were concerned that information about the effects of climate-related risks in the financial statements was insufficient or appeared to be inconsistent with information entities provide outside the financial statements, particularly information reported in other general purpose financial reports.

The IASB carried out research to understand the nature and causes of respondents' concerns about reporting the effects of climate-related risks in the financial statements. Based on this research, the IASB decided:

(a) to generalise the project's objective to cover climate-related and other uncertainties; and

(b) to take actions to help improve the reporting of the effects of these uncertainties in the financial statements, including developing the proposals set out in this Exposure Draft.

Throughout its work on this project, the IASB has collaborated with members and technical staff of the International Sustainability Standards Board, which develops IFRS Sustainability Disclosure Standards. The purpose of this collaboration was to help strengthen the connections between the information an entity provides in its financial statements and the information it provides in other parts of its general purpose financial reports.

Proposals in this Exposure Draft

This Exposure Draft proposes eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The examples mostly focus on climate-related uncertainties, but the principles and requirements illustrated apply equally to other types of uncertainties.

The IASB expects that these illustrative examples will help to improve the reporting of the effects of climate-related and other uncertainties in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.

Next steps

The IASB will consider the comments it receives on this Exposure Draft and decide whether to proceed with the proposed illustrative examples.

 © IFRS Foundation

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is not clear or would be difficult to translate; and

(e) include any alternative the IASB should consider, if applicable.

The IASB requests comments only on matters addressed in this Exposure Draft. However, respondents need not answer all the questions in this invitation to comment.

Questions for respondents

Question 1—Providing illustrative examples

The IASB is proposing to provide eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help to improve the reporting of these effects in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.

Paragraphs BC1–BC9 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

(a) Do you agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements? Why or why not? If you disagree, please explain what you would suggest instead and why.

The IASB is proposing to include the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards.

Paragraphs BC43–BC45 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

(b) Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards? Why or why not? If you disagree, please explain what you would suggest instead and why.

Question 2—Approach to developing illustrative examples
Examples 1–8 in this Exposure Draft illustrate how an entity applies specific requirements in IFRS Accounting Standards. The IASB decided to focus the examples on requirements: (a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and (b) that are likely to address the concerns that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements. Paragraphs BC10–BC42 of the Basis for Conclusions further explain the IASB's overall considerations in developing the examples and the objective and rationale for each example. Do you agree with the IASB's approach to developing the examples? In particular, do you agree with the selection of requirements and fact patterns illustrated in the examples and the technical content of the examples? Please explain why or why not. If you disagree, please explain what you would suggest instead and why.

Question 3—Other comments
Do you have any other comments on the Exposure Draft?

Deadline

The IASB will consider all comments received in writing by 28 November 2024.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Illustrative Examples

Examples 1–8 are added to materials accompanying the IFRS Accounting Standards to which they relate.

IFRS 18 *Presentation and Disclosure in Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2027. The rubrics after the title of each example describe the changes to the materials accompanying IFRS Accounting Standards for periods before and after an entity applies IFRS 18.

List of illustrative examples

	from page
Example 1—Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)	**8**
Example 2—Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)	**10**
Example 3—Disclosure of assumptions: specific requirements (IAS 36)	**12**
Example 4—Disclosure of assumptions: general requirements (IAS 1/IAS 8)	**14**
Example 5—Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)	**17**
Example 6—Disclosure about credit risk (IFRS 7)	**20**
Example 7—Disclosure about decommissioning and restoration provisions (IAS 37)	**22**
Example 8—Disclosure of disaggregated information (IFRS 18)	**23**

Example 1—Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)

Reporting periods before an entity applies IFRS 18

This example is added as 'Example 1' to a new part of the *Guidance on implementing IAS 1* Presentation of Financial Statements, titled 'Part IV: Illustrative examples of disclosures about uncertainties'. Paragraph 1.1 is added as paragraph IG12 and paragraphs 1.2–1.9 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as 'Example IV-1' after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled 'Part IV—Disclosures about uncertainties'. The paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

1.1 This example illustrates how an entity makes materiality judgements in the context of financial statements in accordance with the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*]. In this example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

1.2 The entity is a manufacturer that operates in a capital-intensive industry and is exposed to climate-related transition risks. To manage these risks, the entity has developed a climate-related transition plan. The entity discloses information about the plan in a general purpose financial report outside the financial statements, including detailed information about how it plans to reduce greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing its raw materials and manufacturing methods. The entity discloses no other information about climate-related transition risks in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

1.3 In preparing its financial statements, the entity assesses the effect of its climate-related transition plan on its financial position and financial performance. The entity concludes that its transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses because:

(a) the affected manufacturing facilities are nearly fully depreciated;

(b) the recoverable amounts of the affected cash-generating units significantly exceed their respective carrying amounts; and

(c) the entity has no asset retirement obligations.

1.4 The entity also assesses whether specific requirements in IFRS Accounting Standards—such as in IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and financial performance. The entity concludes that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

1.5 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

1.6 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. That is, omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

1.7 Without that additional information, the decisions users of the entity's financial statements make could reasonably be expected to be influenced by a lack of understanding of how the entity's transition plan has affected the entity's financial position and financial performance. For example, users of the entity's financial statements might expect that some of its assets might be impaired because of its plans to change manufacturing methods and invest in more energy-efficient technology.

1.8 The entity reaches this conclusion having considered qualitative factors that make the information more likely to influence users' decision-making, including:

(a) the disclosures in its general purpose financial report outside the financial statements (entity-specific qualitative factor); and

(b) the industry in which it operates, which is known to be exposed to climate-related transition risks (external qualitative factor).

1.9 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity discloses that its transition plan has no effect on its financial position and financial performance and explains why.

Example 2—Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)

Reporting periods before an entity applies IFRS 18

This example is added as 'Example 2' to a new part of the *Guidance on implementing IAS 1* Presentation of Financial Statements, titled 'Part IV: Illustrative examples of disclosures about uncertainties'. Paragraph 2.1 is added as paragraph IG13 and paragraphs 2.2–2.9 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as 'Example IV-2' after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled 'Part IV—Disclosures about uncertainties'. The paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

2.1 This example illustrates how an entity makes materiality judgements in the context of financial statements in accordance with the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*]. In this example, these judgements do not lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

2.2 The entity is a service provider that operates in an industry that has limited exposure to climate-related transition risks. The entity discloses in a general purpose financial report outside the financial statements that it has low levels of greenhouse gas emissions, explaining that, where possible, it uses renewable energy and avoids high-emission activities. The entity also explains how it plans to keep emissions low by maintaining its current greenhouse gas emissions policy. The entity discloses no other information about climate-related transition risks in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

2.3 In preparing its financial statements, the entity assesses the effect of its greenhouse gas emissions policy on its financial position and financial performance. The entity concludes that its greenhouse gas emissions policy has no effect on the recognition and measurement of its assets and liabilities and related income and expenses.

2.4 The entity also assesses whether specific requirements in IFRS Accounting Standards require it to disclose information about the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance. The entity concludes that they do not.

 © IFRS Foundation

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

2.5 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

2.6 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance would not provide material information. That is, omitting this information could not reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

2.7 Without that additional information, the decisions users of the entity's financial statements make could not reasonably be expected to be influenced by a lack of understanding of how the entity's greenhouse gas emissions policy has affected the entity's financial position and financial performance.

2.8 The entity reaches this conclusion having considered qualitative factors that make the information less likely to influence users' decision-making, including:

(a) the disclosures in its general purpose financial report outside the financial statements (entity-specific qualitative factor); and

(b) the industry in which it operates, which is known to have limited exposure to climate-related transition risks (external qualitative factor).

2.9 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity provides no additional disclosures.

Example 3—Disclosure of assumptions: specific requirements (IAS 36)

This example is added as 'Example 10' after paragraph IE89 of the *Illustrative Examples* accompanying IAS 36 *Impairment of Assets*. Paragraph numbering will be adapted to conform with the numbering used in that document.

3.1 This example illustrates the requirements in paragraphs 134(d)(i)–(ii) and 134(f) of IAS 36 *Impairment of Assets*. In particular, it illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amount of assets.

Background

3.2 The entity's operations result in a high amount of greenhouse gas emissions. The entity is subject to greenhouse gas emissions regulation in some of the jurisdictions in which it operates. Those regulations require the entity to acquire emission allowances for some of its emissions, resulting in costs (emission allowance costs).[1] The entity expects such regulations to become more widespread in the future.

3.3 The entity has allocated a significant amount of goodwill to one of its cash-generating units (CGUs) and tests that CGU for impairment at least annually. The entity has determined that its assumptions about future emission allowance costs are key assumptions—that is, they are among the assumptions to which the CGU's recoverable amount is most sensitive.

Application

Reasonable and supportable assumptions

3.4 The entity measures the value in use of the CGU when testing it for impairment. Applying paragraphs 33–38 of IAS 36 in measuring the CGU's value in use, the entity bases cash flow projections on assumptions that represent management's best estimate of the range of economic conditions that will exist in the future. These assumptions include assumptions about future emission allowance costs.

Disclosures

3.5 Applying paragraphs 134(d)(i)–(ii) of IAS 36, the entity discloses:

(a) that its key assumptions include emission allowance cost assumptions, such as the future price of greenhouse gas emission allowances and the future scope of emission regulations.

[1] This example illustrates only the entity's consideration of emission allowance costs when testing an asset for impairment and its disclosure of information about related key assumptions. The example does not cover, for example, other costs an entity might incur in managing climate-related risks.

© IFRS Foundation

(b) its approach to determining the values assigned to these key assumptions. For example, the entity discloses whether its assumption about the future price of greenhouse gas emission allowances is consistent with external sources of information and, if not, how and why it differs from such sources of information.

3.6 In applying paragraph 134(f) of IAS 36, the entity also considers whether a reasonably possible change in a key assumption would cause the CGU's carrying amount to exceed its recoverable amount—that is, whether such a change in assumption would result in an impairment loss. For example, the entity considers whether an impairment loss would result from a reasonably possible change in the entity's assumption about the future price of greenhouse gas emission allowances. If so, the entity discloses:

(a) the amount by which the CGU's recoverable amount exceeds its carrying amount;

(b) the values assigned to the key assumption; and

(c) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure the recoverable amount, in order for the CGU's recoverable amount to be equal to its carrying amount.

Example 4—Disclosure of assumptions: general requirements (IAS 1/IAS 8)

Reporting periods before an entity applies IFRS 18

This example is added as 'Example 3' to a new part of the *Guidance on implementing IAS 1* Presentation of Financial Statements, titled 'Part IV: Illustrative examples of disclosures about uncertainties'. Paragraph 4.1 is added as paragraph IG14 and paragraphs 4.2–4.9 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as 'Example 6' after paragraph 5.5 of the *Guidance on implementing IAS 8* Basis of Preparation of Financial Statements. Paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

4.1 This example illustrates the requirements in paragraphs 125 and 129 of IAS 1 *Presentation of Financial Statements* [paragraphs 31A and 31E of IAS 8 *Basis of Preparation of Financial Statements*]. In particular, it illustrates how an entity:

(a) might be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure;

(b) identifies the assumptions about which it is required to disclose information; and

(c) determines what information about these assumptions it is required to disclose.

Background

4.2 The entity operates in a capital-intensive industry. The entity is exposed to climate-related transition risks that might affect its ability to recover the carrying amount of some of its non-current assets. The entity has no goodwill or intangible assets with indefinite lives.

4.3 During the current reporting period, there are indications that some of the entity's non-current assets might be impaired. Because it is not possible to estimate the recoverable amount of the individual assets, the entity tests the cash-generating unit (CGU) to which they belong for impairment. The entity concludes that the CGU's recoverable amount is greater than its carrying amount, and therefore recognises no impairment loss. In determining the CGU's recoverable amount, the entity considers various scenarios and makes several assumptions related to the climate-related transition risks to which it is exposed. Examples of such assumptions include assumptions about future:

(a) legal and regulatory developments;

(b) consumer demands;

(c) commodity prices; and

(d) costs of acquiring greenhouse gas emission allowances.

 © IFRS Foundation

Application

Considering the specific requirements in IFRS Accounting Standards

4.4 IAS 36 does not require an entity to disclose information about the assumptions used in determining a CGU's recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognised no impairment loss for that CGU during the period. However, the entity considers whether IAS 1 [IAS 8] requires it to disclose information about these assumptions.

Considering the general disclosure requirement for assumptions in paragraph 125 of IAS 1 [paragraph 31A of IAS 8]

4.5 Paragraph 125 of IAS 1 [Paragraph 31A of IAS 8] requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of the assets and liabilities.

4.6 The entity concludes that some of the assumptions it made in determining the CGU's recoverable amount have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year. These include assumptions about uncertainties that will not be resolved within the next financial year, but that have a significant risk of resulting in a material adjustment to the carrying amount of those assets if the entity were to revise those assumptions in the next financial year. The entity reaches this conclusion after considering these factors:

(a) *the size of the CGU's carrying amount*—the CGU makes up a large portion of the entity's total assets. Therefore, a potential impairment loss from a relatively small adjustment to the total carrying amount might be material.

(b) *the subjectivity or complexity of the judgements management made in determining the assumptions*—the judgements involve a high level of subjectivity and complexity because they cover the medium and long term. The judgements also reflect the entity's expectations about highly uncertain future events, such as government actions to reduce the effects of climate change and the timing of such actions. This high level of subjectivity and complexity increases the risk that the assumptions might change due to new information or new developments.

(c) *the risk that new information or new developments in the next financial year might result in changes in the assumptions*—frequent new climate-related market, economic, regulatory and legal developments might affect the judgements the entity has made. Such circumstances increase the risk that new information or new developments within the next financial year might affect the entity's assumptions (including assumptions

about medium- and long-term uncertainties). The higher the likelihood of new information or new developments in the next financial year, the higher the likelihood that an entity might have to revise its assumptions.

(d) *the sensitivity of the CGU's carrying amount to changes in the assumptions*—the carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction of the CGU's recoverable amount and a material impairment loss.

4.7 Applying paragraph 125 of IAS 1 [paragraph 31A of IAS 8] to the assumptions identified in paragraph 4.6, the entity discloses:

(a) information about these assumptions; and

(b) details of the nature and carrying amount of the CGU's non-current assets.

4.8 Paragraph 129 of IAS 1 [Paragraph 31E of IAS 8] requires an entity to provide these disclosures in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances.

4.9 The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 129 of IAS 1 [paragraph 31E of IAS 8] for the assumptions it identified. For example, the entity discloses qualitative and quantitative information about the assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity—if doing so is necessary to meet that objective.

 © IFRS Foundation

Example 5—Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)

Reporting periods before an entity applies IFRS 18

This example is added as 'Example 4' to a new part of the *Guidance on implementing IAS 1* Presentation of Financial Statements, titled 'Part IV: Illustrative examples of disclosures about uncertainties'. Paragraph 5.1 is added as paragraph IG15 and paragraphs 5.2–5.11 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as 'Example IV-3' after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled 'Part IV—Disclosures about uncertainties'. The paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

5.1 This example illustrates the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*]. In particular, it illustrates how an entity might need to disclose information about assumptions it makes about the future even if other IFRS Accounting Standards do not require such disclosure.

Background

5.2 The entity operates in a jurisdiction whose government has announced regulation that would restrict the entity's ability to operate and generate profits in that jurisdiction in the future. The announced regulation does not relate to taxation. However, the regulation could significantly affect the entity's profitability and, therefore, its ability to recover the carrying amount of its deferred tax asset for the carryforward of unused tax losses. The regulation has not yet been enacted at the end of the reporting period.

5.3 It is uncertain when the announced regulation would be effective. The government has stated that, because of other priorities, it will not discuss the regulation further in the next two years, a period that extends beyond the end of the entity's next financial year.

Application

Considering the specific requirements in IFRS Accounting Standards

5.4 In applying paragraph 34 of IAS 12 *Income Taxes*, the entity considers the extent to which it is probable that taxable profit will be available against which the unused tax losses can be utilised in determining whether to recognise a deferred tax asset for such losses. The entity does not have a history of recent losses, and therefore the requirement in paragraph 35 of IAS 12 does not apply.

5.5 After considering all the criteria in paragraph 36 of IAS 12, the entity concludes that it is required to recognise the deferred tax asset for the full amount of its carryforward of unused tax losses on the assumption that the regulation will become effective only after the entity has been able to utilise these losses. Assuming that the announced regulation would become effective earlier would have resulted in a material write-down of the deferred tax asset and a related deferred tax expense.

5.6 IAS 12 does not require an entity to disclose information about the assumptions used in determining the extent to which it is probable that taxable profit will be available against which the unused tax losses can be utilised. Furthermore, paragraph 82 of IAS 12 does not apply because the entity suffered no loss in either the current or preceding reporting period.

Considering the general disclosure requirement for assumptions in paragraph 125 of IAS 1 [paragraph 31A of IAS 8]

5.7 The entity considers whether paragraph 125 of IAS 1 [paragraph 31A of IAS 8] requires it to disclose information about these assumptions. The entity determines that it is unlikely to change its assumption about the announced regulation in the next financial year because government discussions about it will not take place until after the end of that financial year. Therefore, the entity does not expect that assumption to have a significant risk of resulting in a material adjustment to the carrying amount of the deferred tax asset within the next financial year. Consequently, the entity is not required to disclose information about the assumption applying the requirements in paragraph 125 of IAS 1 [paragraph 31A of IAS 8].

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

5.8 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

5.9 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect of the announced regulation on the entity's financial position and financial performance would provide material information. That is, omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

5.10 Without that additional information, the decisions users of the entity's financial statements make could reasonably be expected to be influenced by a lack of understanding that the announced regulation could have resulted in a material write-down of the deferred tax asset (and a related deferred tax expense) had the entity assumed the announced regulation would become effective earlier.

 © IFRS Foundation

5.11 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity discloses information about:

(a) the assumption that the announced regulation will become effective only after the entity has been able to utilise the unused tax losses; and

(b) the effect of this assumption on the carrying amount of the entity's deferred tax asset (for example, the entity discloses the amount of the deferred tax asset it recognised based on this assumption).

Example 6—Disclosure about credit risk (IFRS 7)

This example is added after paragraph IG22 of the *Guidance on implementing IFRS 7* Financial Instruments: Disclosures under a new heading titled 'Disclosures related to the effects of particular risks'. Paragraph 6.1 is added as paragraph IG22A and paragraphs 6.2–6.4 and related headings are included in a box without numbering.

6.1 This example illustrates requirements in paragraphs 35A–38 of IFRS 7 *Financial Instruments: Disclosures*. In particular, it illustrates how an entity might disclose:

(a) information about the effects of particular risks on its credit risk exposures and credit risk management practices; and

(b) information about how these practices relate to the recognition and measurement of expected credit losses.

Background

6.2 The entity is a financial institution that provides a range of products to various types of customers. As part of its credit risk management practices, the entity considers the effects of climate-related risks on its credit risk exposures. The entity identifies two portfolios of loans that require it to monitor and take action to mitigate credit risk arising from its customers' exposure to climate-related risks:

(a) loans to agricultural customers for which climate-related events such as droughts could affect the borrowers' ability to repay their loans; and

(b) loans to corporate real estate customers that are secured by properties located in low-lying areas subject to flood risk.

Application

6.3 Paragraphs 35A–38 of IFRS 7 include disclosure requirements about credit risk arising from financial instruments. In considering these requirements, the entity determines that information about the effects of climate-related risks on its exposure to credit risk on those two portfolios is material. The factors the entity considers in reaching this conclusion include:

(a) the size of the portfolios affected by climate-related risks relative to the entity's overall lending portfolio.

(b) the significance of the effects of climate-related risks on the entity's exposure to credit risk compared to other factors affecting that exposure. The effects depend on factors such as loan maturities and the nature, likelihood and magnitude of the climate-related risks.

(c) external climate-related qualitative factors—such as climate-related market, economic, regulatory and legal developments—that make the information more likely to influence decisions primary users of the entity's financial statements make on the basis of the financial statements.

 © IFRS Foundation

6.4 In applying the requirements in paragraphs 35A–38 of IFRS 7, the entity considers what information to provide about the effects of climate-related risks on its exposure to credit risk on those two portfolios. This information might include, for example:

(a) an explanation of the entity's credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses. The information the entity discloses might include, for example, how climate-related risks affect:

    (i) the determination of whether the credit risk on these financial instruments has increased significantly since initial recognition; and

    (ii) the grouping of instruments if expected credit losses are measured on a collective basis.

(b) an explanation of how climate-related risks were incorporated in the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9 *Financial Instruments*. The information the entity discloses might include:

    (i) how climate-related risks were incorporated in the inputs used to measure expected credit losses, such as probabilities of default and loss given default;

    (ii) how forward-looking information about climate-related risks was incorporated into the determination of expected credit losses; and

    (iii) any changes the entity made during the reporting period to estimation techniques or significant assumptions to reflect climate-related risks and the reasons for those changes.

(c) information about collateral held as security and other credit enhancements, including information about properties held as collateral that are subject to flood risk and whether that risk is insured.

(d) information about concentrations of climate-related risk if this information is not apparent from other disclosures the entity makes.

Example 7—Disclosure about decommissioning and restoration provisions (IAS 37)

This example is added as 'Example 4' in Section 'D Examples: disclosures' in the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets. Paragraph 7.1 is added as introductory text in italics and paragraphs 7.2–7.4 and related headings are included in a box without numbering.

7.1 This example illustrates the requirement in paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In particular, it illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if the carrying amount of the associated provision is immaterial.

Background

7.2 The entity is a petrochemicals manufacturer and has plant decommissioning and site restoration obligations for its petrochemical facilities. The entity assumes that it will continue to maintain and operate the facilities for an extremely long time. Consequently, the costs required to settle the obligations will be incurred so far into the future that, when discounted to their present value, their effect on the carrying amount of the provision is immaterial. However, the costs to settle the obligations will be high and there is an increasing risk that the entity might be required to close some of its petrochemical facilities earlier than it expects because of efforts to transition to a lower-carbon economy.

Application

7.3 Paragraph 85 of IAS 37 requires an entity to disclose information for each class of provision. Although the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial, the entity concludes that information about the related obligations is material. The entity reaches this conclusion after considering, among other factors, the environment in which it operates, the risk that it might be required to settle the obligations earlier than expected and the size of the outflows that will be required to settle them.

7.4 Applying paragraph 85 of IAS 37, the entity discloses information about its plant decommissioning and site restoration provision, including:

(a) a brief description of the nature of its plant decommissioning and site restoration obligations and the expected timing of the outflows of economic benefits required to settle them.

(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity also discloses the major assumptions made concerning future events. These assumptions could include assumptions about the future use of each of the entity's main petrochemical facilities—for example, when the facility is expected to be closed.

 © IFRS Foundation

Example 8—Disclosure of disaggregated information (IFRS 18)

This example is added as 'Example IV-4' after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled 'Part IV—Disclosures about uncertainties'. The paragraph numbering will be adapted to conform with the numbering used in that document.

8.1 This example illustrates the requirements in paragraphs 41–42 and B110 of IFRS 18 *Presentation and Disclosure in Financial Statements*. In particular, it illustrates how an entity might disaggregate the information it provides about a class of property, plant and equipment (PP&E) on the basis of dissimilar risk characteristics.

Background

8.2 The entity owns PP&E with long useful lives whose use results in high amounts of greenhouse gas emissions. The entity has invested in alternative PP&E of the same class with lower greenhouse gas emissions but still uses the high-emissions PP&E for a large part of its operations. The entity operates in an industry with a high degree of exposure to climate-related transition risks and the two types of PP&E make up a large portion of the entity's total assets.

8.3 The entity concludes that these two types of PP&E have significantly different vulnerabilities to climate-related transition risks. For example, possible future regulations to reduce greenhouse gas emissions or changes in consumer demands could affect these two types of PP&E in different ways, including:

(a) how long the entity will be able to use them;

(b) how their residual values will be affected; and

(c) whether the entity will be able to recover their carrying amounts.

Application

8.4 Paragraphs 41–42 of IFRS 18 include principles for aggregating and disaggregating information in financial statements. In particular, these paragraphs require an entity to disaggregate items based on characteristics that are not shared whenever the resulting information is material. Paragraph B110 of IFRS 18 includes examples of such characteristics, which include the risks associated with an item.

8.5 After considering its particular facts and circumstances, the entity determines that the two types of PP&E have sufficiently dissimilar risk characteristics that disaggregating the information the entity provides in the notes about these types of PP&E would result in material information.

8.6 Applying paragraphs 41–42 and B110 of IFRS 18, the entity disaggregates the information it provides in the notes about the related class of PP&E between the two types of PP&E. In particular, the entity disaggregates the information it discloses applying paragraph 73 of IAS 16 *Property, Plant and Equipment* for these types of PP&E whenever the resulting disaggregated information is material.

© IFRS Foundation

Approval by the IASB of Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* published in July 2024

The Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* was approved for publication by all 14 members of the International Accounting Standards Board.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	

© IFRS Foundation

Basis for Conclusions on the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Climate-related and Other Uncertainties in the Financial Statements*. It summarises the considerations of the International Accounting Standards Board (IASB) when developing the Exposure Draft. Individual IASB members gave greater weight to some factors than to others.*

Background

Objective of the project

BC1 In March 2023, the International Accounting Standards Board (IASB) added to its work plan a project to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements. The IASB decided to work on this project because of strong demand from respondents to its Third Agenda Consultation.[1] These respondents were concerned that information about the effects of climate-related risks in the financial statements was sometimes insufficient or appeared to be inconsistent with information entities provided outside the financial statements, particularly information reported in other general purpose financial reports.

BC2 After starting its work on the project, the IASB decided to generalise the project's objective to cover climate-related and other uncertainties. The IASB decided to generalise the project's objective because:

(a) the principle-based nature of IFRS Accounting Standards means that any actions the IASB takes as part of the project would apply not only to uncertainties arising from climate-related risks but to uncertainties in general;

(b) generalising the project's objective ensures that various types of uncertainties, including those yet to emerge, are captured and are treated consistently; and

(c) an entity might not always be able to identify the effects of climate-related uncertainties separately from those of other uncertainties.

BC3 However, the IASB's actions on this project focus primarily on climate-related uncertainties to respond to the specific concerns raised by stakeholders.

Research and actions taken by the IASB

BC4 The IASB carried out research to understand the nature and causes of the concerns about reporting the effects of climate-related risks in the financial statements. This research included:

(a) meetings with the IASB's consultative bodies and other stakeholders;

(b) reviews of academic research and other publications; and

1 The IASB undertook its Third Agenda Consultation between September 2019 and July 2022.

(c) reviews of IFRS Accounting Standards to identify potential gaps, unclear requirements or limitations in the requirements.

BC5 The IASB's research confirmed that stakeholders are concerned that information about the effects of climate-related risks in the financial statements is sometimes insufficient or appears to be inconsistent with information provided outside the financial statements.

BC6 The research also showed that:

(a) IFRS Accounting Standards are generally sufficient in requiring an entity to disclose information about the effects of climate-related risks in the financial statements. However, entities might face some challenges in applying the Standards.

(b) some primary users of general purpose financial reports, which include financial statements and sustainability-related financial disclosures, need information that goes beyond the objective and scope of financial statements.[2] These information needs could be satisfied through other disclosures, such as sustainability-related financial disclosures prepared in accordance with IFRS Sustainability Disclosure Standards.

(c) the reporting landscape is evolving, particularly with developments in sustainability reporting, including the work of the International Sustainability Standards Board (ISSB). The process of entities preparing sustainability-related financial information might help inform the application of IFRS Accounting Standards.

(d) stakeholders seek timely action to help improve the reporting of the effects of climate-related and other uncertainties in the financial statements.

BC7 Based on this research, the IASB decided to take several actions to help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. The IASB focused on actions it could complete in a timely manner to respond to stakeholders' needs. Specifically, the IASB is taking actions to help:

(a) *improve the application of IFRS Accounting Standards*—this Exposure Draft includes the IASB's proposal to provide examples illustrating how applying the requirements in IFRS Accounting Standards results in an entity disclosing information about the effects of climate-related and other uncertainties in the financial statements. In addition, the IFRS Interpretations Committee considered a question about how an entity accounts for commitments to reduce or offset its greenhouse gas emissions.[3]

---

2 The term 'sustainability-related financial disclosures' is used with the same meaning as defined in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

3 See Agenda Decision *Climate-related Commitments* (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

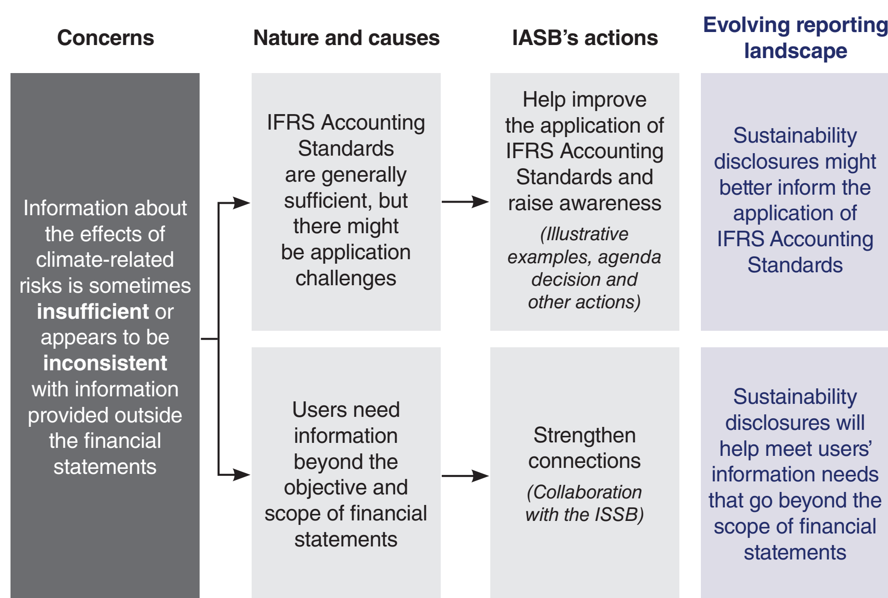
 © IFRS Foundation

(b) *raise awareness of the requirements in IFRS Accounting Standards*—the IASB has improved the accessibility of supporting materials about reporting the effects of climate-related and other uncertainties in the financial statements. For example, educational materials translated into various languages are now available on the project page on the IFRS Foundation website. The IASB is also exploring other ways to raise awareness of the requirements in IFRS Accounting Standards.

(c) *strengthen connections*—the IASB is collaborating with members and technical staff of the ISSB to help strengthen connections between the information an entity provides in its financial statements and the information it provides in its sustainability-related financial disclosures.

BC8 Figure 1 illustrates how the IASB's actions relate to the findings from its research:

Figure 1—How the IASB's actions relate to the findings from its research



Other actions taken by the IASB

BC9 In addition to the actions described in paragraph BC7, the IASB:

(a) explored whether to clarify or enhance the requirements in IFRS Accounting Standards regarding the disclosure of information about accounting estimates. The IASB's research to date did not reveal enough evidence or consensus among stakeholders that amending the Standards is necessary, nor which amendments are necessary and why. Feedback on this Exposure Draft will help the IASB determine whether any other actions, including amending IFRS Accounting Standards, might be necessary.

(b) responded to other specific climate-related matters through other projects on its workplan, including how an entity:

  (i) assesses the contractual cash flow characteristics of financial assets with environmental, social and governance-linked features; and

  (ii) accounts for contracts for renewable electricity with specified characteristics.[4]

(c) consulted the IFRS Interpretations Committee about how entities, in applying IAS 36 *Impairment of Assets*, reflect the potential for high variability in future cash flows over an extended time horizon when calculating the value in use of an asset. Feedback from the Committee did not suggest that further action in this area was necessary.

Developing illustrative examples

Overall considerations in developing the examples

Which requirements to illustrate?

BC10 The IASB noted that the effects of climate-related and other uncertainties are pervasive across financial statements. Therefore, there are many requirements that an entity might apply in reporting these effects that the IASB could illustrate with examples. The IASB decided to focus the examples on requirements:

(a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and

(b) that are likely to address the concerns that information about the effects of climate-related risks is insufficient or appears to be inconsistent with information provided outside the financial statements.

BC11 The concerns in paragraph BC10 relate mostly to the application of disclosure requirements in IFRS Accounting Standards. Therefore, the IASB concluded that the examples would be most helpful if they focused on illustrating the application of these requirements. In particular, the IASB concluded that the examples would help address the identified concerns if they illustrated how an entity:

(a) determines whether information about how climate-related and other uncertainties affected its financial position and financial performance is material, including considering connections to information it provides in other general purpose financial reports (Examples 1–2);

4 See *Amendments to the Classification and Measurement of Financial Instruments* and the Exposure Draft *Contracts for Renewable Electricity*.

 © IFRS Foundation

(b) discloses information about how climate-related assumptions and other sources of estimation uncertainty affected the carrying amounts of its assets and liabilities (Examples 3–7); and

(c) disaggregates information about its assets and liabilities based on dissimilar climate-related risk characteristics (Example 8).

BC12 The IASB noted that, by their nature, examples cannot illustrate:

(a) the application of all requirements in IFRS Accounting Standards that might be applicable to a fact pattern;

(b) all facts and circumstances an entity would consider in making materiality judgements; or

(c) all material information an entity is required to disclose in a specified fact pattern.

BC13 IFRS 18 *Presentation and Disclosure in Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2027. IFRS 18 carried forward many requirements from IAS 1 *Presentation of Financial Statements* and moved some other requirements from that Standard to IAS 8 *Basis of Preparation of Financial Statements*.[5] For simplicity, this Basis for Conclusions refers to the requirements in IAS 1.

What types of uncertainties and fact patterns to illustrate?

BC14 The examples illustrate how an entity applies the requirements in IFRS Accounting Standards in specified fact patterns. The application of those requirements could result in an entity disclosing similar information in other fact patterns.

BC15 Stakeholders were mainly concerned about the reporting of the effects of climate-related uncertainties. The IASB therefore concluded that examples illustrating the application of IFRS Accounting Standards to climate-related uncertainties would be most helpful in responding to these concerns. However, the IASB noted that the principles and requirements illustrated apply equally to other types of uncertainties.

BC16 Climate-related uncertainties affect many industries, in various ways and to varying extents. Accordingly, the examples set out fact patterns at a sufficiently high level to be applicable to a variety of entities operating in various industries.

Should the examples be stand-alone or walk-through?

BC17 The IASB considered whether to develop:

(a) examples with narrow fact patterns illustrating particular requirements in an IFRS Accounting Standard (stand-alone examples); or

5 IFRS 18 also changed the title of IAS 8.

(b) examples with broad fact patterns illustrating several requirements in a selection of IFRS Accounting Standards (walk-through examples).

BC18 The IASB concluded that stand-alone examples would be more effective in helping to improve the reporting of the effects of climate-related and other uncertainties in the financial statements. These examples can more precisely target particular matters or requirements that give rise to stakeholder concerns.

How can the examples facilitate connected general purpose financial reporting?

BC19 As noted in paragraph BC1, one of the objectives of the project is to respond to concerns that information about the effects of climate-related risks in the financial statements sometimes appears to be inconsistent with information entities provide outside their financial statements, particularly information reported in other general purpose financial reports. In responding to these concerns, the IASB decided to focus the examples on inconsistencies that might appear to exist between financial statements and other general purpose financial reports. The IASB concluded that this approach would help strengthen the connections between information an entity provides in its financial statements and information it provides in other parts of its general purpose financial reports.

BC20 The approach described in paragraph BC19 is aligned with the IFRS Foundation *Constitution*, which sets out:

(a) the objective of developing complementary IFRS Accounting Standards and IFRS Sustainability Disclosure Standards that are intended to result in the provision of high-quality, transparent and comparable information in general purpose financial reports for making economic decisions; and

(b) the requirement for the IASB and ISSB to work together with the objective of developing their respective sets of IFRS Standards that are compatible, and avoid inconsistences and conflicts, with each other.

BC21 In developing the examples, the IASB sought to illustrate the provision of connected information in general purpose financial reports and to reinforce compatibility with IFRS Sustainability Disclosure Standards based on the existing requirements in IFRS Accounting Standards. To achieve those goals, the IASB:

(a) illustrated in Examples 1–2 how requirements in IFRS Accounting Standards enable an entity to provide information in the financial statements that is connected with information it provides in other general purpose financial reports;

(b) used concepts and terminology consistent with those used in IFRS Sustainability Disclosure Standards, to the extent possible; and

(c) collaborated with ISSB members and technical staff in developing the examples.

 © IFRS Foundation

BC22 Financial statements prepared in accordance with IFRS Accounting Standards may be accompanied by disclosures about sustainability-related risks and opportunities prepared in accordance with IFRS Sustainability Disclosure Standards or other sustainability-related standards or frameworks. Therefore, in developing the examples, the IASB did not limit the consideration of connected reporting to the circumstances in which both sets of IFRS Standards are applied. However, the IASB specifically considered how the content of the examples relates to requirements in IFRS Sustainability Disclosure Standards.

BC23 The IASB noted that the application of both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards in the fact patterns illustrated by the examples may, in some cases, result in an entity providing information in its financial statements that is similar to information it is required to provide in its sustainability-related financial disclosures. In particular, this outcome might arise because of the requirements in IFRS Sustainability Disclosure Standards to provide information about how sustainability-related risks and opportunities have affected an entity's financial position and financial performance for the reporting period.

BC24 The outcome described in paragraph BC23 might also arise with the provision of disaggregated information. For example, an entity applying the principles of aggregation and disaggregation in IFRS 18 might disclose disaggregated information about a class of property, plant and equipment in its financial statements (see Example 8). That information could be similar to the information the entity discloses in its sustainability-related financial disclosures by applying paragraph 29 of IFRS S2 *Climate-related Disclosures*.[6]

BC25 However, when applied together, IFRS Standards enable connected financial reporting and avoid duplicated disclosures. IFRS Sustainability Disclosure Standards permit an entity, subject to specified criteria, to include information in its sustainability-related financial disclosures by cross-reference to another report published by the entity, for example, the entity's financial statements. Similar to what is noted in paragraph BC9(a), feedback on this Exposure Draft will help the IASB determine whether any further action might be needed to support the provision of connected information and reduce duplication in reporting, including amending IFRS Accounting Standards.

BC26 The IASB observed that some requirements in IFRS Sustainability Disclosure Standards include language similar to that used in requirements illustrated by the examples proposed in this Exposure Draft.[7] In some cases, the application of these requirements could result in an entity providing information in its financial statements that is similar to information it is required to provide in its sustainability-related financial disclosures (see permission to include information in sustainability-related financial disclosures by cross-reference discussed in paragraph BC25).

---

6 Paragraph 29 of IFRS S2 *Climate-related Disclosures* requires an entity to disclose, among other information, the amount and percentage of assets or business activities vulnerable to climate-related transition risks.

7 For example, paragraph 35(b) of IFRS S1 and paragraph 16(b) of IFRS S2 use language similar to that used in paragraph 125 of IAS 1 *Presentation of Financial Statements*.

BC27 In other cases, the application of requirements with similar language could result in an entity providing information in its financial statements that differs from information it provides in its sustainability-related financial disclosures. For example, IFRS Sustainability Disclosure Standards have a definition of material information that is conceptually aligned with that used in IFRS Accounting Standards.[8] Both sets of Standards also include a similar overarching requirement to provide additional information when compliance with specific requirements in the Standards is insufficient to enable users to understand how various matters affect the entity. However, applying the definition of material information and the requirement to provide additional information, in the context of financial statements and in the context of sustainability-related financial disclosures, could nonetheless result in an entity providing different information in each of those reports because those reports serve different objectives.

Objectives and rationale for each example

Materiality judgements and the disclosure of additional information (Examples 1–2)

BC28 The IASB developed Example 1 to respond to stakeholder concerns about a perceived disconnect between information about the effects of climate-related risks disclosed in the financial statements and information provided outside the financial statements. Stakeholders said they observed extensive discussion about climate-related strategy, risks and targets outside the financial statements, but the financial statements either:

(a) made no reference to climate-related matters; or

(b) included a statement that the effect of climate-related matters was immaterial without explaining the reason for that assertion.

BC29 The IASB noted that such situations may arise because of a focus on quantitative rather than qualitative factors in assessing the materiality of information. Therefore, the IASB decided to illustrate how an entity considers qualitative factors in making materiality judgements in a climate-related scenario. The IASB decided to do so by building on examples in IFRS Practice Statement 2 *Making Materiality Judgements*, specifically:

(a) Example K, which illustrates the influence of external qualitative factors on materiality judgements; and

(b) Example C, which illustrates that, in applying paragraph 31 of IAS 1, materiality judgements might lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.[9]

BC30 In Example 1, the entity considers whether the disclosures it makes in a general purpose financial report outside its financial statements affect its determination of which information is material in the context of its financial statements. In making that determination, the entity applies judgement and

8 See also paragraphs BC68–BC69 of the Basis for Conclusions for IFRS S1.

9 The requirement in paragraph 31 of IAS 1 was carried forward to paragraph 20 of IFRS 18.

 © IFRS Foundation

considers its specific circumstances, including matters disclosed in other general purpose financial reports. The entity also considers how the information it provides in its financial statements responds to the information needs of the users of those financial statements.

BC31 The IASB developed Example 2 to help address concerns that the consideration of qualitative factors could lead to excessive disclosures. Similar to Example 1, Example 2 illustrates that an entity considers qualitative factors in determining whether information is material even if there is no effect on its financial position and financial performance. In such a case, the entity provides no additional disclosure because doing so would not provide material information.

BC32 Examples 1 and 2 assume that the entity does not apply IFRS Sustainability Disclosure Standards. If those Standards were applied, the entity would be required to disclose in its sustainability-related financial disclosures information about the effects of climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period.

Assumptions and other sources of estimation uncertainty (Examples 3–7)

BC33 The IASB developed Examples 3–7 to illustrate how applying the requirements in IFRS Accounting Standards would result in an entity disclosing information about assumptions it makes about the future and other sources of estimation uncertainty, including those related to climate-related uncertainties. Research indicates that information about assumptions is often necessary to enable users of financial statements to understand how climate-related and other uncertainties affect the recognition and measurement of assets and liabilities.

Specific disclosure requirements for assumptions in IFRS Accounting Standards

BC34 The IASB developed Examples 3, 6 and 7 to illustrate specific requirements in IFRS Accounting Standards that require entities to disclose information about assumptions. These examples illustrate areas of accounting that are among the most relevant to reporting the effects of climate-related and other uncertainties, specifically impairment of financial and non-financial assets and provisions. In particular:

(a) Example 3 illustrates the disclosure of assumptions about the costs of acquiring allowances for greenhouse gas emissions in measuring the recoverable amount of a cash-generating unit. Stakeholders said that entities operating in various industries are subject to greenhouse gas emissions regulations and that information about the assumptions used in estimating the related costs is often material. The example also illustrates the disclosure of an entity's assumptions about potential future increases in the scope of these regulations. Those are among the assumptions an entity might have to make in estimating future cash flows to measure the recoverable amount of an asset (or cash-generating unit).

(b) Example 6 illustrates the disclosure of information about the effects of climate-related risks on an entity's credit risk exposures and credit risk management practices, as well as information about how these practices relate to the recognition and measurement of expected credit losses. The example also lists factors an entity might consider in assessing the materiality of information about how climate-related risks affect credit risk and the measurement of expected credit losses. An entity's exposure to credit risk is affected by many risks, but specific information about the effects of particular risks might be material in some circumstances.

(c) Example 7 illustrates disclosures about uncertainties related to the amount or timing of outflows required to settle plant decommissioning and site restoration obligations. The IASB has been informed that information about the effects of climate-related uncertainties on the recognition and measurement of plant decommissioning and site restoration provisions could be material, even when the carrying amount of a provision is immaterial because of an entity's assumptions about the timing of related outflows.

General disclosure requirements for assumptions in IFRS Accounting Standards

BC35 The IASB developed Example 4 to illustrate the general requirements to disclose information about assumptions in paragraphs 125 and 129 of IAS 1.[10] These requirements apply even when specific disclosure requirements in other IFRS Accounting Standards do not apply.

BC36 In researching this project, the IASB became aware that some stakeholders might interpret the requirement in paragraph 125 of IAS 1 as applying only to assumptions about uncertainties that will be resolved within the next financial year. In accordance with this view, assumptions about uncertainties that will be resolved after the end of the next financial year are never within the scope of paragraph 125 of IAS 1.

BC37 Example 4 illustrates that paragraph 125 of IAS 1 also applies to assumptions about uncertainties that will be resolved only *after* the end of the next financial year. Specifically, that paragraph applies if there is a significant risk that a change in those assumptions *within* the next financial year would result in a material adjustment to the carrying amount of assets or liabilities. The IASB concluded that this example could help an entity determine whether to disclose information about climate-related and other assumptions, including assumptions about events or conditions that might occur in the medium or long term.

BC38 Example 4 also illustrates how an entity determines *what* information to disclose about those assumptions in applying paragraph 129 of IAS 1. The example explains that an entity is required to disclose information that meets the objective of helping users of financial statements understand the

10 The requirements in paragraphs 125–133 of IAS 1 were carried forward to paragraphs 31A–31I of IAS 8 when IFRS 18 was issued.

 © IFRS Foundation

judgements that management made about the future and other sources of estimation uncertainty. The entity determines the nature and extent of the information it is required to provide to meet that objective, including whether it is necessary to disclose quantitative information.

BC39 The IASB concluded that Example 4 could contribute to a better understanding of the requirements in paragraph 125 and 129 of IAS 1, thereby improving the information entities provide about climate-related and other assumptions.

The overarching disclosure requirement in paragraph 31 of IAS 1

BC40 The IASB developed Example 5 to illustrate that, in some situations, an entity might be required to provide information about assumptions even if the specific or general disclosure requirements for assumptions in IFRS Accounting Standards do not apply. In particular, an entity might be required to provide information if:

(a) the assumption does not have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year; but

(b) the entity determines that additional disclosures to enable users of financial statements to understand the effects of transactions and other events and conditions on the entity's financial position and financial performance would provide material information.

Disaggregation (Example 8)

BC41 The IASB developed Example 8 to illustrate how applying the principles of aggregation and disaggregation in IFRS 18 might result in an entity disaggregating information it provides about a class of property, plant and equipment based on dissimilar climate-related risk characteristics. In researching this project, the IASB was informed that such information could be material, in particular for entities operating in industries with a high degree of exposure to climate-related transition risks.

BC42 Example 8 illustrates the application of the principles in IFRS 18. An entity would also be required to disclose disaggregated information applying the requirements in IAS 1 if it concludes that such disaggregated information is material (for example, if material information would be obscured by inappropriate aggregation of dissimilar items).

Vehicle for the examples

BC43 In considering how best to communicate the examples, the IASB considered whether to publish the examples as educational materials, include them as illustrative examples accompanying IFRS Accounting Standards, or include them in the Standards. The IASB decided to propose including the examples as illustrative examples accompanying IFRS Accounting Standards. Although illustrative examples are not an integral part of the Standards and therefore might not be translated or endorsed in some jurisdictions, the IASB concluded that illustrative examples:

(a) are easily accessible because they are included alongside other guidance accompanying the Standards;

(b) are used by preparers in applying the Standards and are helpful to auditors and regulators in supporting their audit and enforcement activities; and

(c) allow for greater flexibility in content and format than if the examples were to be included in the Standards.

BC44 The IASB noted that, as with any material accompanying IFRS Accounting Standards, the examples do not add or change requirements in IFRS Accounting Standards.

BC45 In addition to including the examples as illustrative examples accompanying IFRS Accounting Standards, the IASB might group the examples and publish them as a single document. This document would allow stakeholders to refer to the examples as a package and make it easier for stakeholders to identify connections between the examples.

Effective date and transition

BC46 Materials accompanying IFRS Accounting Standards, including illustrative examples, are not an integral part of those Standards and, as such, do not have an effective date or transition requirements.

BC47 The IASB expects that the illustrative examples might:

(a) help entities make materiality judgements and provide information in financial statements that meets the needs of users of those financial statements; and

(b) provide additional insights into how to apply the disclosure requirements in IFRS Accounting Standards.

BC48 The IASB noted that an entity applies judgement in determining which information is material and, therefore, is required to be disclosed in its financial statements. An entity reassesses these judgements at each reporting date. Information that was previously immaterial might become material, or the other way around, as an entity's circumstances or its external environment change.

BC49 The IASB expects entities to be entitled to sufficient time to implement any changes to the information disclosed in their financial statements as a result of the issuance of the illustrative examples. Determining how much time is sufficient is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless, an entity would be expected to implement any change on a timely basis.

 © IFRS Foundation

IFRS Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org

International Financial Reporting Standards®, IFRS Foundation®,
IFRS®, IAS®, IFRIC®, SIC®, IASB®, ISSB™, IFRS for SMEs®