New Zealand Accounting Standards Board – Public Meeting Agenda

In-person meeting, Wellington — Thursday, 20 February 2025

Est Time	Item	Topic	Objective		Page
PUBLIC SESSION					
11:00 am	**3**	**Service Performance Reporting (continued)**	(JC and NCB)		
15 min	3.1	Board memo: Project update	Discuss	Paper	3
	3.2	Board memo: User needs considerations	Discuss	Paper	11
11:15 am	**4**	**PBE Revenue and Transfer Expenses**	(LvH and CB)		
75 min	4.1	Cover memo	Consider	Paper	13
	4.2	Board memo: Revenue	Consider	Paper	19
	4.3	Draft ED PBE IPSAS 47 *Revenue*	Approve	Paper	30
	4.4	Draft Consultation Document ED PBE IPSAS 47	Approve	Paper	227
	4.5	Board memo: Transfer Expenses	Consider	Paper	245
	4.6	Draft ED PBE IPSAS 48 *Transfer Expenses*	Approve	Paper	253
	4.7	Draft Consultation Document ED PBE IPSAS 48	Approve	Paper	305
12:30 pm 30 min	**Lunch**				
1:00 pm	**5**	**IPSASB ED *Tangible Natural Resources***	(AS)		
15 min	5.1	Board memo	Consider	Paper	321
	5.2	Draft comment letter	Approve	Paper	326
	5.3	IPSASB ED 92 *Tangible Natural Resources*	Consider	Paper	332
1:15 pm	**6**	**IASB ED *Provisions – Targeted Improvements***	(NCB)		
30 min	6.1	Board memo	Consider	Paper	386
	6.2	Draft comment letter	Approve	Paper	389
	6.3	IASB ED *Provisions – Targeted Improvements – Proposed amendments to IAS 37*	Consider	Paper	397
	6.4	IASB ED *Provisions – Targeted Improvements – Guidance on implementing IAS 37*	Consider	Paper	432
	6.5	IASB ED *Provisions – Targeted Improvements – Basis for Conclusions*	Consider	Paper	461
1:45 pm	**7**	**RDR concessions for NZ IFRS 18**	(CB)		
30 min	7.1	Board memo: NZ IFRS 18 – RDR concessions	Consider	Paper	500
	7.2	Draft ED *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*	Approve	Paper	507

Est Time	Item	Topic	Objective		Page
	7.3	Draft Consultation Document *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*	Approve	Paper	519
2:15 pm	**8**	**Amendments to the Classification and Measurement of Financial Instruments – RDR**	(AS)		
15 min	8.1	Board memo	Consider	Paper	522
	8.2	Draft amending standard	Approve	Paper	525
	8.3	Draft signing memo	Approve	Paper	532
2:30 pm	**Finish**				

Next NZASB meeting: Thursday, 10 April 2024, virtual

Agenda Item 3.1

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Date:	31 January 2025
To:	XRB Board Members, NZASB Members, NZAuASB Members
From:	Michelle Lombaard, Misha Pieters, Nimash Bhikha
Subject:	Service Performance Reporting – Project Update

Purpose

1. The purpose of this agenda item is to **UPDATE** the XRB Board, the NZASB and the NZAuASB (the Boards) on the proposed joint project plan and timetable to address the reporting and assurance issues identified relating to service performance reporting.

Recommendations

2. The Boards are asked to **PROVIDE FEEDBACK** on the outline of the developing Discussion Paper (DP) and the revised timetable for this project, as requested by the Boards previously.

Background

3. At the December 2024 meetings, the NZASB and the NZAuASB considered a proposed joint project plan and timetable to address the accounting and assurance issues relating to service performance reporting identified through initial feedback from entities and assurance practitioners during 2024. The XRB Board was updated at its December meeting.

4. The proposed plan covered three workstreams, which included:

   (a) Amendments to the reporting standard PBE FRS 48 *Service Performance Reporting*;

   (b) Development of guidance materials for preparers around the key principles of service performance reporting, focussed on Not-For-Profit (NFP) reporting; and

   (c) Development of guidance for assurance practitioners around applying the audit and assurance standards when dealing with service performance subject matters.

5. The NZASB recommended that, instead of developing an Exposure Draft (ED) to amend PBE FRS 48 *Service Performance Reporting* at this time, a DP should be developed to explore whether planned actions would help stakeholders with the issues they are facing, and whether there were other issues or actions which should be considered.

6. The NZAuASB was updated on the NZASB's decision to develop a DP. The NZAuASB reflected on the priority of developing guidance to support the revised NZ AS 1 *The Audit of Service Performance Information* and encouraged staff to consider what guidance may be expedited to support implementation (including guidance relating to audit evidence).

7. The XRB Board noted the development of a DP but reiterated the need to be agile and responsive to the issues raised. The XRB Board also noted the DP could include discussion on the analysis taken to date, and other options explored in addition to amending PBE FRS 48 and

developing guidance. The XRB Board also encouraged the NZASB and the NZAuASB to be bold in addressing these challenges, maintain momentum on the project and focus on joined-up solutions.

8. All three Boards requested that staff provide an update at the respective February 2025 meetings, including a revised timeline to reflect the updated approach.

9. We have prepared an outline of the DP for the Boards to consider (Appendix A), as well as a revised timetable for this project (Appendix B).

XRB sub-committee

10. The XRB Board noted that a sub-committee of NZASB and NZAuASB members would assist staff with next steps and that a representative from the XRB Board may be useful. Staff agree that this sub-committee would be useful, and this is in the process of being established.

11. We are intending for a whole of XRB approach to address the challenges in service performance reporting and assurance, and the DP covers reporting and assurance topics. As such, staff recommend the XRB sub-committee, on behalf of the three Boards and under delegated authority from the XRB Board, should be responsible for the approval of this DP. This will allow for the DP to be developed and issued in an efficient and timely manner, with a balanced view from the XRB Board, the NZASB and the NZAuASB representatives, and with updates provided to the Boards.

12. After the DP period, we will consider the process required around the development of an Exposure Draft with amendments to PBE FRS 48. Any process will ensure the ED is reviewed and approved by the NZASB (in line with the delegated authority for reporting standards), and that updates are provided to the sub-committee and the Boards.

Questions for the Boards:

Q1. Do the Boards have any **FEEDBACK** on the DP outline (as outlined in Appendix A)?

Q2. Do the Boards have any **FEEDBACK** on the project timeline (as outlined in Appendix B)?

Q3. Does the XRB Board **AGREE** with the process around developing and issuing the DP and have **FEEDBACK** on who should be on the sub-committee?

Appendix A – Discussion Paper Outline

The proposed Discussion Paper (DP) will cover the following topics:

Section	Outline	Tiers
Section 1: What is this DP about?	• Why are we consulting on Service Performance Reporting • Who should respond • How to provide feedback	All Tiers
Section 2: Background information on Service Performance Reporting	• Role of General-Purpose Financial Reports (GPFR) • Purpose of Service Performance Reporting • Service Performance Reporting Principles • The XRB's mandate around reporting • Assurance of Service Performance Information - Legislative requirements - Non-legislative requirements - Standards for assurance practitioners • Observations from the implementation of service performance reporting - Lack of clarity over reporting principles - Differences in Public Sector and NFP Sectors - Capability and capacity in reporting - Verification challenges	All Tiers
Section 3: Possible XRB Actions and Analysis	• Making Service Performance Reporting voluntary for PBEs, by removing it from GPFR • Separating service performance information from the financial statements to allow a different assurance product *(not within the current XRB mandate)* • Adding exemptions for some PBE subsectors, specifically philanthropic funders • Setting different reporting requirements for NFP and Public Sectors • Enhancing the understanding and application of requirements through standard-setting and supporting guidance	All Tiers
Section 4: The XRB's Suggested Approach	• Clarifying the reporting requirements • Introducing tailored Public Sector and NFP Sector appendices • Developing reporting guidance targeted towards largest NFP sub-sectors • Developing assurance guidance targeted assurance practitioners relating to evidence	Tier 1 & 2
Section 5: Potential Action – Amendments to PBE FRS 48	• Overview of the current approach in PBE FRS 48 • The problem we are trying to solve: Potential challenges heard from current feedback - Content Ambiguities	Tier 1 & 2

Section	Outline	Tiers
	- User Identification Challenges - Appropriate and meaningful performance information • The proposed solution: Details of what this action would involve - Clarity around content of Service Performance Information - Definitions around Service Performance Information - Conceptual Framework Alignment - Basis of Preparation and disclosure requirements	
Section 6: Potential Action – Structural Changes to PBE FRS 48	• Overview of the current approach in PBE FRS 48 • The problem we are trying to solve: Potential challenges heard from current feedback - Legislative context variations - Reporting framework maturity - Resource constraints • The potential solution: Details of what this action would involve - Public Sector authoritative appendix – Integration with legislative requirements and appropriations, treatment of appropriation-funded activities, and cross-agency collaboration and attribution of performance - Not-For-Profit Sector authoritative appendix – Steps for developing a performance framework without legislative requirements, linking outputs to outcomes, and selecting appropriate measures	Tier 1 & 2
Section 7: Potential Action – Guidance on Service Performance Reporting	• Overview of the current approach to reporting guidance • The Problem we are trying to solve: Potential challenges heard from current feedback - Framework development and measurement challenges - Evidence challenges - Limited diversity of performance measures • The potential solution: Details of what this action would involve – Guidance for the four largest NFP sub-sectors (Health, Education, Social Services and Religious Activities) - Examples of appropriate and meaningful mixes of performance measures which include quantitative & qualitative measures, and qualitative descriptions - Examples for how each measure could be evidenced - Examples of the basis of preparation for service performance - Examples of how judgements made in selecting performance measures and in measuring performance could be disclosed	Tier 1 & 2

Section	Outline	Tiers
Section 8: Potential Action – Guidance on Service Performance Assurance	• Overview of the planned approach to assurance guidance • The problem we are trying to solve: Potential challenges heard from current feedback - Verification Challenges - Application of wider auditing standards to service performance information - Internal control considerations - Applying materiality when assuring non-financial information • The potential solution: Details of what this action would involve - Guidance on assurance evidence	All Tiers

Appendix B – Revised Project Timeline

Month	Key Accounting Team Activities & Milestones	Key Assurance Team Activities & Milestones
January 2025	• Development of Discussion Paper • Development of Illustrative Guidance	• Develop assurance evidence guidance
February 2025	• Develop communication messages for DP consultation, including communication strategies and outreach • **18 February 2025 – DP outline & process considered by XRB Board (Discussion)** • **20 February 2025 – DP outline & process considered by NZASB (Discussion)**	• **12 February 2025 – DP outline & process considered by NZAuASB (Discussion)** • **12 February 2025 – Approach to audit evidence guidance considered by NZAuASB**
March 2025	• Process updates and refinements to DP • Refine communication messages for DP consultation, including communication strategies and outreach • **March 2025 – DP considered by Sub-Committee (Discussion & Approval)** • **March 2025 – DP released publicly**	• Continue drafting assurance evidence guidance • Refine communication messages for DP consultation • **March 2025 – Audit guidance considered by Sub-Committee (Discussion)** • **March 2025 – Issue assurance evidence guidance (at the same time as the DP)**
April 2025	• **10 April 2025 – Project Update to NZASB (Discussion)** • **15 April 2025 – Project Update to XRB Board (Discussion)**	• **9 April 2025 – Project Update to NZAuASB (Discussion)** • Education and awareness outreach of assurance evidence guidance
May 2025	• Hold feedback / roundtable sessions with stakeholders to hear feedback on DP – Split between Sectors & Tiers and Users and Practitioners	• Education and awareness outreach of assurance evidence guidance • Hold feedback / roundtable sessions related to assurance issues
June 2025	• Hold feedback / roundtable sessions with stakeholders to hear feedback on DP – Split between Sectors & Tiers and Users • **June 2025 – DP Period Ends**	• Education and awareness outreach of assurance evidence guidance • Hold feedback / roundtable sessions related to assurance issues
July 2025	• Process DP feedback • Develop XRB actions around possible standard amendments and guidance • Sub-Committee involvement as needed	• The consultation and development of guidance will be a continuous and iterative process. We will continue support the implementation of the assurance standards, by engaging with stakeholders to identify issues and address concerns
August 2025	• Process DP feedback • Develop XRB actions around possible standard amendments and guidance • Sub-Committee involvement as needed • **12 August 2025 – Project Update to NZASB (Discussion)**	• Assurance team involvement as needed • Sub-Committee involvement as needed • **14 August 2025 – Project Update to NZAuASB (Discussion)**

Month	Key Accounting Team Activities & Milestones	Key Assurance Team Activities & Milestones
September 2025	• Develop ED around possible standard amendments • Sub-Committee involvement as needed to consider ED • Develop communication messages and materials for ED consultation with focus on key changes, costs and benefits • **18 September 2025 – Project Update to XRB Board (Discussion)**	• Assurance team involvement as needed • Sub-Committee involvement as needed
October 2025	• **9 October 2025 – ED considered by NZASB (Approval)** • **14 October 2025 – ED considered by XRB Board (Discussion)** • **October 2025 – ED released publicly**	• Assurance team involvement as needed • NZAuASB update as needed
November 2025	• Hold feedback / roundtable sessions with stakeholders to test drafted reporting guidance and proposed amendments • Conduct sector consultations on proposals and develop guidance	• Attend feedback / roundtable sessions to identify any assurance issues • Assurance team involvement as needed
December 2025	• Hold feedback / roundtable sessions with stakeholders to test drafted reporting guidance and proposed amendments • Conduct sector consultations on proposals and develop guidance	• Attend feedback / roundtable sessions to identify any assurance issues • Assurance team involvement as needed
January 2026	• Process roundtable feedback • Process updates and refinements to the amendments and guidance • **January 2026 – ED Period Ends**	• Assurance team involvement as needed
February 2026	• Process ED feedback • **12 February 2026 – Project Update to NZASB (Discussion)** • **19 February 2026 – Project Update to XRB Board (Discussion)**	• Assurance team involvement as needed • NZAuASB update and involvement as needed
March 2026	• Process updates and refinements to the amendments and guidance • Develop communication messages and outreach material for amendments	• Assurance team involvement as needed
April 2026	• Process updates and refinements to the amendments and guidance • Develop communication messages and outreach material for amendments • **Early April 2026 – Amending Standard considered by Sub-Committee (Discussion)**	• Assurance team involvement as needed • NZAuASB update and involvement as needed

Month	Key Accounting Team Activities & Milestones	Key Assurance Team Activities & Milestones
	• **23 April 2026 – Amending Standard considered by NZASB (Approval)**	
May 2026	• **20 May 2026 – Amending Standard considered by XRB Board (Discussion)** • **31 May 2026 – Amending Standard Gazetted (effective for periods beginning 1 July 2026)**	• Assurance team involvement as needed
June 2026 onwards	• Education and awareness outreach of new amendments and guidance • Development and release of other reporting and assurance guidance	• Assurance team involvement as needed

Given the proposed nature of the amendments to PBE FRS 48 would be targeted to clarify certain requirements, any changes should be mandatory as soon as possible to give maximum benefits to PBEs. Therefore, we are targeting an effective date for periods beginning 1 July 2026.

To achieve this, any amending standard would need to be published by 2 June 2026 to allow for secondary legislation to legally take effect before the beginning of the 1 July 2026 reporting period (28th day after the date of publication of the amendment in line with Section 27(1) of the Financial Reporting Act 2013).

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 3.2

Date:	5 February 2025
To:	NZASB Members
From:	Nimash Bhikha, Jamie Cattell
Subject:	Service Performance Reporting Project – User Needs Considerations

Purpose

1. The purpose of this agenda item is to **UPDATE** the NZASB (the Board) on the considerations made around user needs for Service Performance Reporting and background to the developing Discussion Paper.

Recommendations

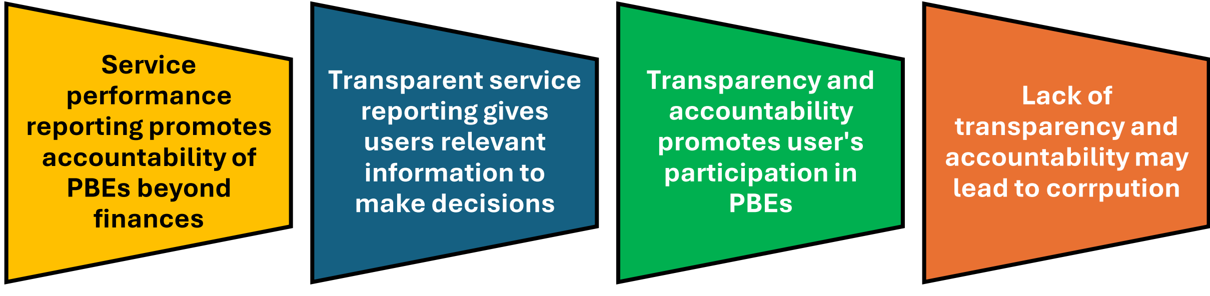
2. The Board is asked to **PROVIDE FEEDBACK** on the consideration of user's needs for service performance information to ensure this project is focused on the appropriate outcomes, and the developing Discussion Paper.

Background

3. At the December 2024 meetings, the Board recommended that, instead of developing an Exposure Draft (ED) with proposed amendments to PBE FRS 48 *Service Performance Reporting* at this time, a Discussion Paper should be developed, setting out the challenges the XRB has heard and the proposals to address these challenges.

4. The Board also requested more considerations of user needs in relation to service performance reporting should be made, to ensure any proposed actions have the appropriate objectives focussed on users of service performance information, rather than just preparers and assurance practitioners.

Consideration of user's needs for Service Performance Information



5. XRB staff have considered the users' needs for service performance information in New Zealand, focusing on its purpose, objectives, and benefits. During the development of PBE FRS 48 in 2015 and 2016, we also received feedback from stakeholders about the need for this type of reporting.

6. In 2024, we discussed with specific users, including the Inland Revenue Department and Charities Services, who found service performance reporting from PBEs valuable for

confirming what entities have achieved during the period and for assessing their tax status and registrations.

7. The main users of general-purpose financial reports of PBEs are resource providers (like taxpayers, ratepayers, donors, grantors, and lenders) and service recipients (like the community at large or specific segments of the community).

8. These users rely on General-Purpose Financial Reports (GPFRs) and their personal experiences to evaluate the quality and effectiveness of PBE services. This helps them engage with the services provided by PBEs and improves their trust in the PBE's objectives and approach.

9. GPFRs is a key accountability and decision-making tool for PBEs and their users, especially since many PBEs receive government funding, tax exemptions, and public donations. Without transparency and accountability, there is a greater risk of distrust, abuse, and corruption.

10. Since PBEs aim to provide goods or services for community or social benefit, focusing only on financial information in their reports can give a misleading impression that their performance is based on profitability, rather than their impact on society. This limits the accountability and decision-making power of the information for users.

11. Users' interests and the type of information useful for accountability and decision-making vary between entities, making it challenging for the XRB to develop reporting requirements for all types of PBEs across the Public Sector and NFP Sectors.

12. However, users generally want to know if an entity has used funds efficiently and effectively for the intended purpose and what it has achieved with the resources provided by society. Information should also explain why the entity exists, its broad goals, and what it has done during the period to achieve these aims. These principles are embedded in PBE FRS 48.

13. XRB staff believe that high-quality, trusted service performance information is important for users of PBEs GPFRs in New Zealand. This type of reporting helps users make more informed decisions by not solely assessing a PBE's performance based on its financial impact. As New Zealand's population grows, the impact of PBEs on society increases, leading to a greater need for accountability.

14. We will include questions in the Discussion Paper to get feedback on the user's need for service performance information for effective decision-making and whether the XRB's standards meet these needs.

15. The proposed actions within the Discussion Paper aim to balance user needs with those of preparer and assurance practitioner regarding service performance reporting, providing benefits to users by facilitating the information they need for decision making.

Question for the Board:

Q1. Does the Board have any **FEEDBACK** on the consideration of user needs to ensure this project is focused on the appropriate outcomes (as outlined above)?

Agenda Item 4.1

Memorandum

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

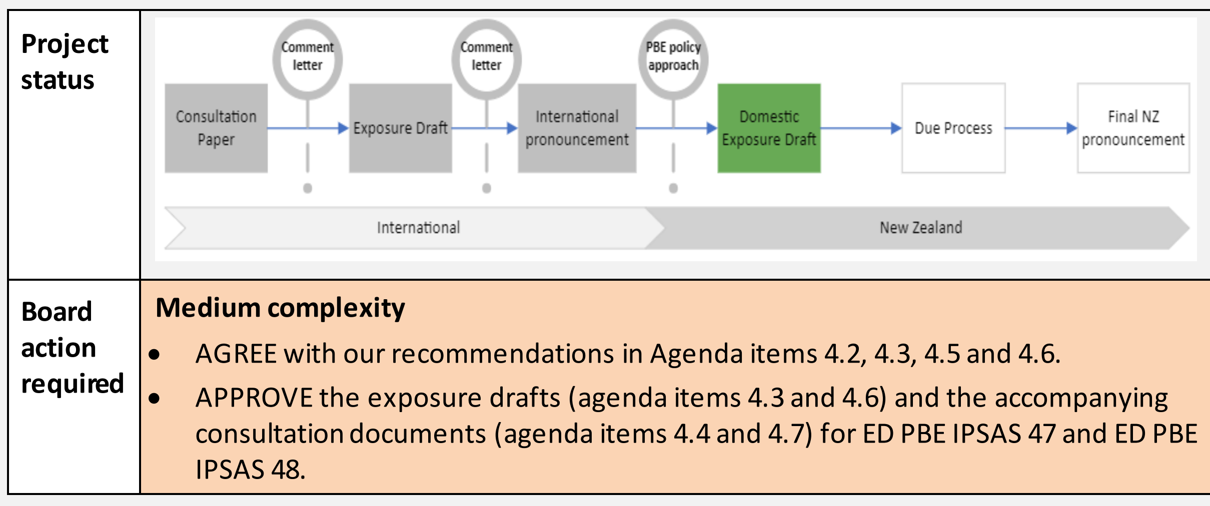
Date:	5 February 2025
To:	NZASB Members
From:	Leana van Heerden and Carly Berry
Subject:	**Cover memo – Revenue and Transfer Expenses**

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 *Revenue* and IPSAS 48 *Transfer Expenses* 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 and December 2024 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	
Board action required	**Medium complexity** • AGREE with our recommendations in Agenda items 4.2, 4.3, 4.5 and 4.6. • APPROVE the exposure drafts (agenda items 4.3 and 4.6) and the accompanying consultation documents (agenda items 4.4 and 4.7) for ED PBE IPSAS 47 and ED PBE IPSAS 48.

Introduction

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. Agenda item 4.1 includes the content of agenda item 4 (paragraph 3) along with the specifics of our consultation, its timing, and outreach activities (paragraphs 4–7). Additionally, Appendix 1 sets out a detailed timeline of planned actions and Appendix 2 tracks the topics of concern and their coverage to date.

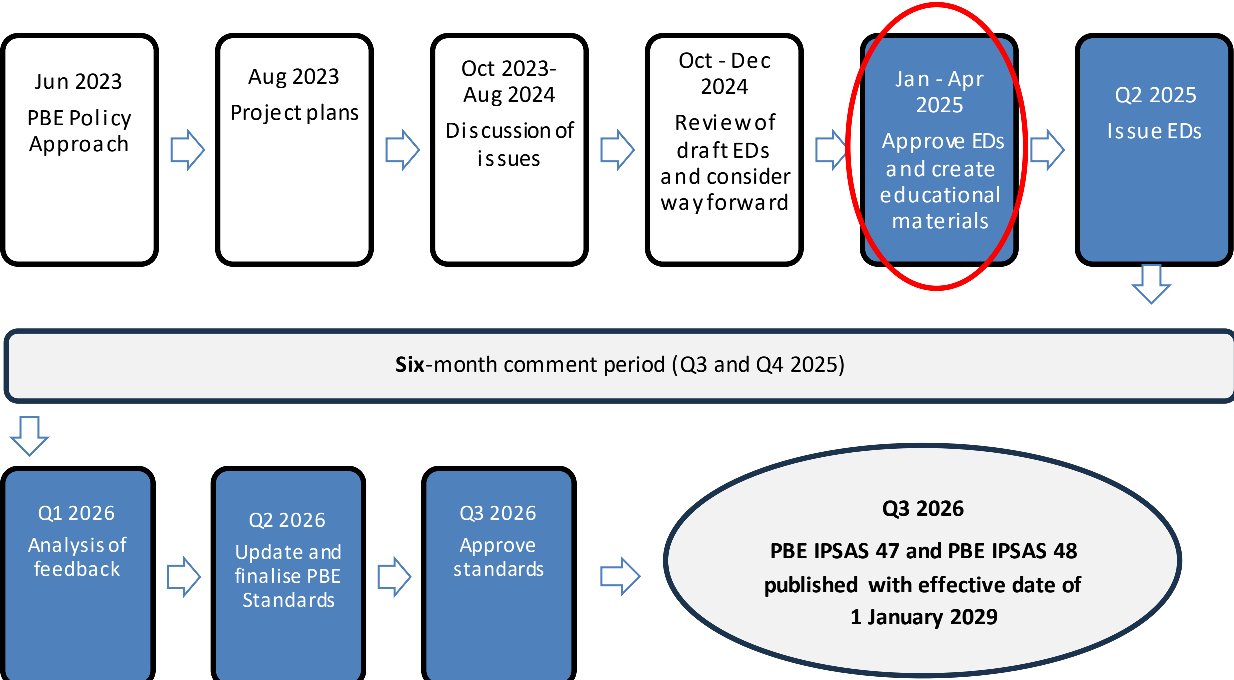
Content of Agenda Item 4

3. The table below sets out the content of agenda item 4.

Item #	Title
4.1	**Cover memo**
4.2	**Board memo: Revenue** The Board paper outlines staff's drafting adjustments in response to feedback from the October 2024 and December 2024 meetings. It also details the drafting process for the not-for-profit (NFP) Implementation Guidance, Basis for Conclusions and consultation paper, including the questions proposed in the consultation document.
4.3	**Draft ED PBE IPSAS 47** The draft ED outlines the changes made since December 2024, concentrating on the Basis for Conclusions, the NFP Implementation Guidance Section G and updated illustrative example (IE) 24A. Comments and questions are included to Board members.
4.4	**Draft Consultation Document for ED PBE IPSAS 47** This agenda item contains our proposed consultation document for ED PBE IPSAS 47.
4.5	**Board memo: Transfer Expenses** The Board paper outlines the drafting process for the Basis for Conclusions and consultation paper, including the questions proposed in the consultation document.
4.6	**Draft ED PBE IPSAS 48** The draft ED highlights the changes made since December 2024 and includes questions to Board members.
4.7	**Draft Consultation Document for ED PBE IPSAS 48** This agenda item contains our proposed consultation document for ED PBE IPSAS 48.

Consultation and outreach

4. The diagram below shows the project history and the proposed timeline (highlighted in blue). Refer to Appendix 1 for a detailed timeline and planned actions.



5. To introduce ED PBE IPSAS 47 and ED PBE IPSAS 48 ahead of their publication, we will be recording a Q&A session with Ian Carruthers, Chair of the IPSASB, during his visit from 17–20 February. This session will provide background on why the IPSASB developed these standards, insights into the cost-benefit considerations, and the importance of the binding arrangement concept in both standards.

6. At the December 2024 Board meeting, the following approach was communicated:

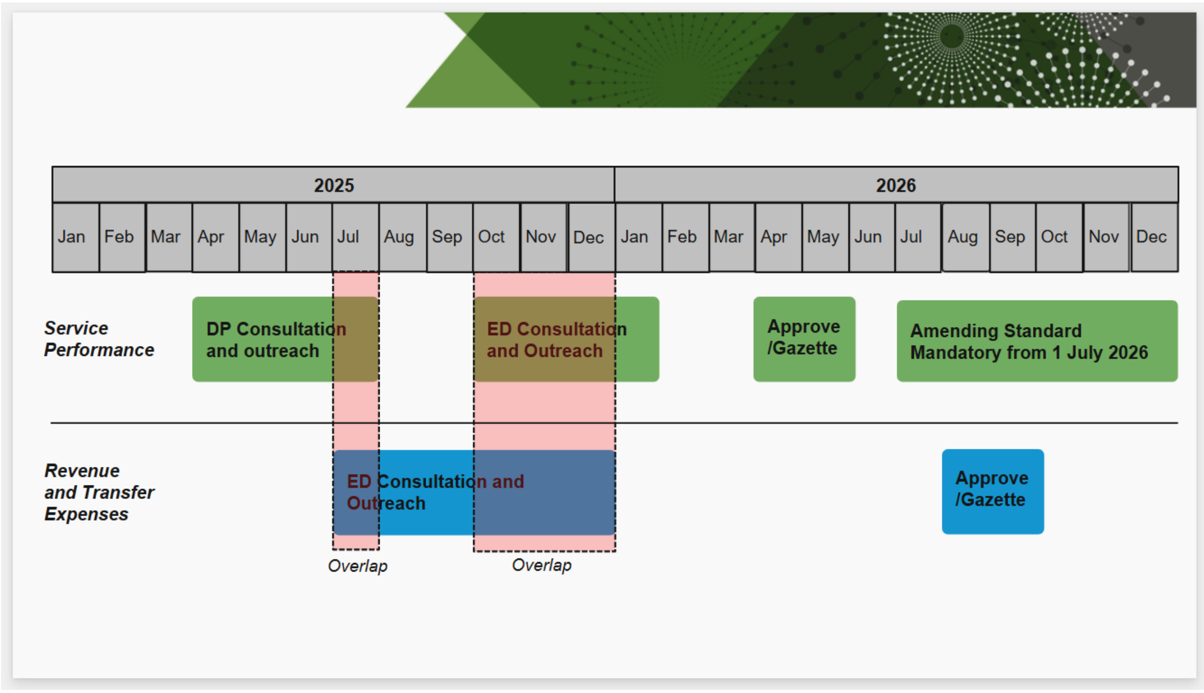
   (a) The PBE ED will have an extended six-month comment period to allow stakeholders sufficient time to assess the impact and prepare well-informed responses.

   (b) Educational support materials will be developed ahead of the release of the PBE EDs to ensure stakeholders have immediate access to relevant guidance.

   (c) These materials will include 5–6 webcasts covering key aspects such as overarching principles, revenue and transfer expense recognition and measurement, and other relevant topics. The materials will use simplified language where possible to enhance stakeholder understanding.

   A comprehensive outreach plan will be developed and presented at the April 2025 Board meeting to align with the available guidance.

7. We note that another significant consultation – relating to the Statement of Service Performance – is set to occur this year. The timeline for our consultation and approval of PBE IPSAS 47 and PBE IPSAS 48, along with its intersection with the Statement of Service Performance consultation as discussed under agenda item 3, is illustrated below: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ED Consultation and Outreach
Approve /Gazette
Amending Standard Mandatory from 1 July 2026
Revenue and Transfer Expenses
ED Consultation and Outreach
Approve /Gazette
Overlap
Overlap

Appendix 1: Detailed timeline of planned actions

Date (est)	Project activity
Approval of PBE EDs	
February/ April 2025	<u>Review and approval of the EDs and Consultation Documents</u> NZASB to consider the working draft of the EDs (including the Bases for Conclusions) and Consultation Documents. NZASB to approve ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses* and the Consultation Documents for publication. Staff prepare educational support material to accompany the EDs and Consultation Documents.
PBE EDs open for consultation (6 months)	
Q2 2025	Staff continue preparing educational support material to accompany the EDs and Consultation Documents. EDs and Consultation Documents to be published with the educational support material. Staff undertakes targeted and broad-scope outreach activities – stakeholder outreach plan to be shared with the NZASB in the April 2025 meeting.
Analysis of feedback and development of PBE Standards	
Q1 2026	Staff analyse feedback received on the EDs.
Q2 2026	NZASB to consider staff's analysis of feedback received on the EDs and recommended changes in response (two NZASB meetings)
Approval and issue of PBE IPSAS 47 and PBE IPSAS 48	
Q3 2026	NZASB to approve the final drafts of PBE IPSAS 47 and PBE IPSAS 48.
Q3 2026	PBE IPSAS 47 and PBE IPSAS 48 are issued and become effective for periods beginning on or after 1 Jan 2029.

Appendix 2: Topics of concern coverage

The draft EDs take into account all Board decisions made to date, as well as the recommended drafting adjustments to be discussed 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	✔	15 Oct 24
Transitional provisions	Both	✔	15 Oct 24
Illustrative examples*	Both	✔	15 Oct 24 & 4 Dec 24
Consequential amendments to other PBE Standards	Both	✔	15 Oct 24 & 4 Dec 24
Cost vs benefit analysis	Both	✔	4 Dec 24
Bases of Conclusions	Both	✔	Covered in this agenda item
Not-for-Profit Implementation Guidance	IPSAS 47	✔	

[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.

Memorandum

Date:	5 February 2025
To:	NZASB Members
From:	Leana van Heerden
Subject:	**ED PBE IPSAS 47 *Revenue***

Introduction and purpose

1. The purpose of this memorandum is to seek the Board's approval of the updated Exposure Draft (ED) PBE IPSAS 47 and proposed consultation paper accompanying the draft ED.

2. The updated draft ED includes the Not-for-Profit (NFP) Implementation Guidance Section G, updated IE 24A (demonstrating revenue deferral for a binding arrangement transaction involving the receipt of resources for an entity's internal use), and PBE Basis for Conclusions (PBE BCs). These updates, along with additional minor drafting adjustments, reflect feedback provided by the Board at its October 2024 and December 2024 meetings.

3. This memo should be read in conjunction with agenda item 4.3, which is a marked-up version of the ED with changes highlighted in blue and accompanied by comment boxes that explain the modifications. The draft ED also includes the Board questions in turquoise boxes, positioned below the relevant paragraphs.

4. Additionally, the draft consultation paper (including the proposed questions to constituents) is included under Agenda Item 4.4. This is the first time the Board will be reviewing the draft consultation document.

5. A summary of outcomes from previous Board meetings that are relevant to the ED can be found in Appendix 1.

Recommendations

6. We recommend that the Board:

   - AGREES with the:

     (a) NFP Implementation Guidance Section G;

     (b) Updated IE 24A;

     (c) PBE BCs;

     } Agenda item 4.3

   - APPROVES the following, subject to any changes raised by the Board at this meeting being finalised via review by the Chair:

     (d) The ED PBE IPSAS 47 in its entirety – Agenda item 4.3; and

     (e) The accompanying consultation document – Agenda item 4.4.

We also recommend that the Board NOTES the next steps set out in this memo.

Structure of this memo

7. This memo includes the following sections.

- NFP Implementation Guidance Section G
- Illustrative example 24A
- PBE Basis for Conclusions
- Consultation Document
- Next Steps
- Appendix 1: Summary of outcomes from previous Board meetings relevant to ED PBE IPSAS 47

Agenda items accompanying this memo:

- 4.3 Draft ED PBE IPSAS 47; and
- 4.4 Draft Consultation Document PBE IPSAS 47.

NFP Implementation Guidance Section G (pages 133–139 of agenda item 4.3)

8. At the October 2024 Board meeting, the Board agreed to include NFP Implementation Guidance in ED PBE IPSAS 47, consistent with the approach used in PBE IPSAS 23 *Revenue from Non-exchange Transactions* NFP Implementation Guidance Section B. This guidance addresses common NFP transaction types, including bequests, cash donations, funding, goods and services in-kind, and uncompleted obligations. Its inclusion in ED PBE IPSAS 47 aims to ensure consistent application of the standard's requirements by NFP entities while providing greater clarity and enhancing understanding.

9. Staff developed the guidance by adapting the NFP Guidance in PBE IPSAS 23 to align with the principles and requirements of PBE IPSAS 47, with a focus on key concepts such as enforceability, binding arrangements, and compliance obligations.

10. To validate the appropriateness and practicality of the guidance, two members of the PBE Working Group with experience in the NFP sector have been requested to review the draft. Their feedback is expected at a later stage and will be considered for incorporation before the draft ED is finalised to ensure the guidance is fit-for-purpose within the New Zealand context.

11. The updated NFP Guidance has been added as Section G in the draft ED PBE IPSAS 47 Implementation Guidance.

Question for the Board
Q1. Does the Board AGREE with the proposed NFP Implementation Guidance Section G in the draft PBE IPSAS 47, contained on pages 133–139 of agenda item 4.3?

Illustrative example 24A (pages 165–166 of agenda item 4.3)

12. In June 2024, the Board decided to include or expand an IE in the draft ED PBE IPSAS 47 to demonstrate the deferral of revenue in binding arrangement transactions involving resources received for an entity's internal use. As a result, IE 20 was expanded.

13. At the October 2024 meeting, the Board recommended adding a separate IE specifically focused on this topic. In response, IE 24A was drafted and presented for feedback at the December 2024 Board meeting.

14. Based on the feedback provided at the December 2024 Board meeting, IE 24A has been revised as follows:

    - Removed journal entries and unnecessary numerical detail;
    - Delete the sentence "Revenue can be recognised according to the number of staff attending the training";
    - Adjusted the example to clearly establish that there is only one compliance obligation; and
    - Modified the consequence for non-compliance to require transferring unspent funds (or funds not spent in accordance with the terms of the binding arrangement) to a third party, rather than returning the funds to the resource provider.

15. Additionally, as recommended by the Board at the October 2024 meeting, the proposed PBE BCs include information highlighting the modifications to IPSAS 47 IEs (i.e. IE 20 and IE 24A) that emphasise the requirements on deferral of revenue in binding arrangement transactions involving resources received for an entity's internal use. Refer to paragraphs 17 – 18 below for further details on the BCs.

Question for the Board

Q2. Does the Board AGREE with the proposed adjustments to IE 24A, contained in agenda item 4.3 pages 165–166, paragraphs IE145.1–145.7?

PBE Basis for Conclusions (pages 119–124 of agenda item 4.3)

16. The PBE BCs begins by outlining the IPSASB's background and rationale for developing IPSAS 47, followed by the NZASB's decision to develop a New Zealand-specific PBE Standard using IPSAS 47 as the starting point. It then details the modifications made to ensure the PBE standard is fit-for-purpose in the New Zealand context.

17. To create the PBE BCs, staff included topics recommended during previous NZASB meetings (refer to Appendix 1), ensuring that the rationale for significant decisions is clearly explained. Additionally, staff included other drafting adjustments necessary to provide transparency and clarity (e.g. NFP enhancements). The BCs cover the following key topics:
    - Binding arrangement revenue deferral for resources received for an entity's internal use – paragraphs BC8–BC11;
    - NFP enhancements – paragraph BC12;
    - Allocation of the transaction price in transactions without binding arrangements – paragraphs BC13–BC15;
    - Valuation of non-cash considerations at fair value – paragraphs BC16–BC19;
    - Appropriations – paragraphs BC20–BC22;
    - Inventory received in-kind – paragraph BC23; and
    - Removal of IE 45 and IE 47 – paragraph BC24.

Questions for the Board

- *PBE BCs*

  Q3. Does the Board AGREE with each of the key topics covered in the BC, per pages 119–124 in agenda item 4.3, and are there any other topics that should be added?

  Q4. Does the Board AGREE with the detail included in each of the key topics?

- *ED PBE IPSAS 47*

  Q5. Does the Board APPROVE the draft ED for issue, subject to any changes raised by the Board at this meeting being finalised via review by the Chair?

Consultation Document

18. The draft Consultation Document, that will accompany the ED, is attached as Agenda Item 4.4. This document outlines the purpose of the consultation, includes a cost-benefit analysis, and summarises the key principles and other significant aspects of the ED proposals.

19. The consultation questions have been formulated to address a range of critical areas such as the key principles underpinning the standard, different revenue recognition requirements for transactions with and without binding arrangements, disclosure requirements and RDR concessions, implementation challenges and the mandatory date. Following the NZASB's June 2023 and December 2024 discussions on the cost vs benefit impact, a specific question has

been included to reflect the importance of understanding stakeholders' perspectives on this issue.

20. In developing these questions, staff reviewed discussions held during the NZASB's consideration of ED PBE IPSAS 47 and found no further specific suggestions to include. Similarly, as part of staff's drafting process no issues requiring targeted questions were identified. As a result, the questions are designed to focus on overarching principles and key practical implications. However, the consultation paper draws attention to certain information in the ED, where challenges may arise when implementing PBE IPSAS 47, such as revenue deferral requirements, NFP Implementation Guidance, appropriations, services in-kind, etc.

21. Based on this approach, the following questions have been included in the draft Consultation Document to elicit feedback from respondents:

Topic	Question
Costs vs Benefit analysis (Section D)	1. What are the anticipated costs and benefits of adopting PBE IPSAS 47 for your organisation? Please provide specific examples of both initial and ongoing costs, as well as any expected benefits.
Key principles in revenue accounting (Section F)	2. Do the binding arrangement, enforceability and compliance obligation principles outlined in the ED provide sufficient clarity for practical application? What challenges do you anticipate in applying these principles in practice?
Revenue recognition (Section G)	3. Do you agree with the proposed approach to revenue recognition for transactions *without* binding arrangements? Are there any specific challenges you foresee in applying this approach? 4. Do you agree with the proposed approach to revenue recognition for transactions *with* binding arrangements? Are there any specific challenges you foresee in applying this approach?
Implementation and specific issues (Section H)	5. What challenges do you anticipate in implementing PBE IPSAS 47, including any specific transactions or scenarios where additional clarification may be needed? What support or guidance would be most helpful to assist with these challenges?
Disclosure and RDR concessions (Section I)	6. Do you consider the disclosure requirements in PBE IPSAS 47 to be appropriate and proportionate to the needs of users of PBE financial statements? 7. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

Topic	Question
Mandatory date and other comments (Section J)	8. Do you agree with the proposed mandatory date of 1 January 2029? 9. Do you have any other comments on the ED?

22. We plan to seek assistance from our communications team to add illustrative images and further refinement of the Consultation Document before it is published.

Question for the Board

Q6. Does the Board AGREE with the content of the proposed ED PBE IPSAS 47 Consultation Document as contained in agenda item 4.4?

Q7. Does the Board AGREE with the questions included and are there any other questions which should be added?

Q8. Does the Board APPROVE the proposed ED PBE IPSAS 47 Consultation Document, subject to any changes raised by the Board at this meeting being finalised via review by the Chair?

Next steps

Finalisation of ED and Consultation Document

23. We will update the draft ED and Consultation Document for:

- the Board's feedback at this meeting;
- feedback from the PBE WG individuals on the NFP Implementation Guidance Section G;
- refinement of the Consultation Document by our communications team; and
- Final formatting and editing of the draft ED and consultation document.

24. Refer to agenda item 4.1 for the specifics of our consultation, its timing, and outreach activities.

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

Outcomes addressed in this agenda item are highlighted in green.

Meeting	Outcome	Action
December 2024	The Board provided FEEDBACK on IE 24A which included: • Removing journal entries and any unnecessary numerical detail; • Deleting the sentence "Revenue can be recognised according to the number of staff attending the training"; • Simplifying the example to clearly establish that there is only one compliance obligation; and • Modifying the consequence for non-compliance to require transferring unspent funds (or funds not spent in accordance with the terms of the binding arrangement) to a third party, rather than returning the funds to the resource provider.	**Refer to paragraph 12-15 above and draft ED pages 165 - 166.**
	The Board RECOMMENDED explaining in the Basis for Conclusions the modification made to demonstrate revenue deferral for the receipt of resources for an entity's internal use.	**Refer to paragraph 16 - 17 above and draft ED pages 119-124.**
	Provided FEEDBACK and AGREED with the drafting adjustments relating to: (a) The consequential amendments to the Illustrative Financial Statement Structure in PBE IPSAS 1; (b) Removal of IEs 45 and 47 (which relate to certain IPSAS requirements that are not included in PBE Standards); and (c) Amendments to paragraphs 168 and 183 of PBE IPSAS 47 (to refer to 'material' instead of 'significant').	No additional action is necessary. The referenced modifications to each outcome have been incorporated into the draft ED per Agenda item 4.3.
October 2024	The Board AGREED with:	
	Deleting the sentence in paragraph 9.	
	The replacement of current value with fair value in paragraphs 30, 129-131, AG31, AG104 and IE305.	

Meeting	Outcome	Action
	RDR Disclosures: 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.	No additional action is necessary. The referenced modifications to each outcome was incorporated into the draft ED in October 2024.
	Not to provide Tier 2 disclosure concessions for paragraphs 167(a), 170(b), 171 and 178.	
	The transitional provisions in paragraph 196 - 203 (which are substantively aligned with IPSAS 47) are appropriate in the New Zealand context.	
	The adjustments to application guidance paragraph AG46.	
	Adding the Not-for-Profit example in sub-paragraph (f) to Application Guidance paragraph AG145.	
	The adjustments in Application Guidance paragraph AG153.	
	The addition of Application Guidance sub-paragraph AG166.1.	
	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.	**Refer to draft ED pages 85 – 88.**
	The inclusion of the Basis for Conclusions paragraph BC6, in the consequential amendments to PBE IPSAS 12.	No additional action is necessary. The referenced modifications to each outcome was incorporated into the draft ED in October 2024.
	The adjustments to the consequential amendments to PBE IPSAS 13, Appendix B paragraph B8.	
	The inclusion of the consequential amendments to PBE IFRS 17, PBE IAS 12, PBE FRS 45, PBE FRS 48 and XRB A1.	
	Not adding a definition of appropriations to the definition section of PBE IPSAS 47.	No further action required.
	The inclusion of the PBE IPSAS 23 NZ NFP guidance in PBE IPSAS 47 Implementation Guidance section G.	**Refer to paragraph 8-11 above and draft ED pages 133 - 139.**
	Retaining the expanded IE 20 in paragraphs IE117-IE119 and recommended including an additional IE focused on the deferral of revenue when resources are received for an entity's internal use.	ED PBE IPSAS 47 IE 20 and IE 24A.

Meeting	Outcome	Action
	Furthermore, it was suggested that the PBE Basis for Conclusion should include information highlighting the modifications to PBE IPSAS 47 IEs that emphasise the requirements on this topic.	**Refer to paragraph 16 - 17 above and draft ED pages 119-124.**
	The scenario detail in IE 35 Case A1 in paragraph IE205.1.	No additional action is necessary.
	The Board recommended to remove IE 45 and IE 47 from the draft ED IPSAS 47. Furthermore, it was suggested that the PBE Basis for Conclusion should include information highlighting the modifications to PBE IPSAS 47 IEs.	No additional action is necessary. The referenced modifications to each outcome was incorporated into the draft ED in December 2024. **Refer to paragraph 16 - 17 above and draft ED pages 119-124.**
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 IE 35 in IPSAS 47 to include a scenario where the transaction is without a binding arrangement;	ED PBE IPSAS 47 IE 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:	

Meeting	Outcome	Action
	• include an IE 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 IE, the staff will first evaluate whether an existing example can be expanded upon; and	ED PBE IPSAS 47 IE 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.	**Refer to paragraph 16 - 17 above and draft ED pages 119-124.**
	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 IEs to align with the New Zealand context.	ED PBE IPSAS 47 IE 7

Meeting	Outcome	Action
	• 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:	
	• 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.

Agenda Item 4.3

Proposed new accounting standard for revenue

PBE IPSAS 47 *Revenue*

Exposure Draft

Submissions close [xx] 2025

Note to the Board:

Changes from the NZASB December 2024 draft ED have been highlighted in **blue**.

Notes to Board members are included in comment boxes in certain areas, mostly where a modification to the IPSAS has been made since the December 2024 draft ED. 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 4.2 where we discuss our recommendations.

The Board question is included in a **turquoise** box within the body of the draft ED. These questions have also been copied in agenda item 4.2.

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

June 2025

NZASB EXPOSURE DRAFT 2025-[xx]

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".

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ISBN

PBE IPSAS 47 REVENUE

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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) [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;

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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.

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3 Revenue is 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.

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 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

[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.

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.

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:**

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[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.

(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 value, in accordance with the relevant PBE Standard.**

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 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 government imposes a sales tax, the entire proceeds of which it passes to local governments, based on a continuing appropriation, the central 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 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 taxation agency collects income taxes for the central government and local 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 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 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 fair value of the non-cash consideration may vary because of the form of the consideration. If the 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 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

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

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 immaterial 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].

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 material 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).

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

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

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) 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) 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 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 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 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 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 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 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.

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).

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. 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 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 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;

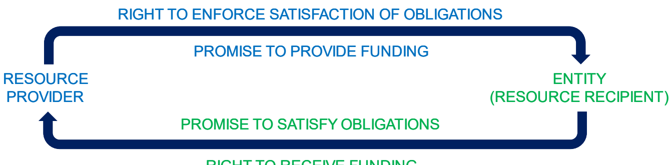
(b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser[8], as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or

(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 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.

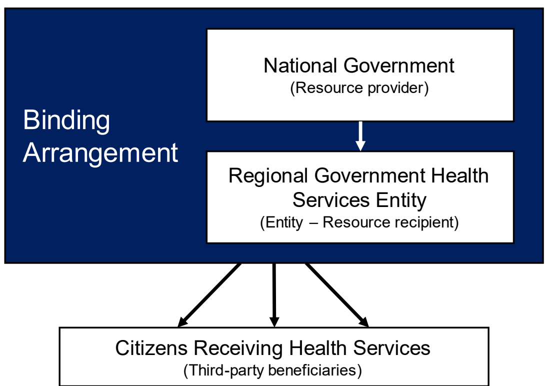
AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must

[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:



AG30. 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.

AG31. 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

AG32. 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 value of the assets exchanged.

AG33. 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.

AG34. 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)

AG35. 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.

AG36. 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).

AG37. 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).

AG38. 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.

AG39. 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

AG40. 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.

AG41. 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.

AG42. 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

AG43. 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.

AG44. 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.

AG45. 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.

AG46. 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

AG47. 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 central governments to local governments;

(b) [Not used];

(c) Transfers from governments to other public benefit 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 local boards or authorities; and

(e) Transfers from donor agencies to governments or other public benefit entities (including not-for-profit entities).

AG48. 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)

AG49. 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.

AG50. 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.

AG51. 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 building a recreational facility for a council);

(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)).

AG52. 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)

AG53. 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.

AG54. 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).

AG55. 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.

AG56. 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)

AG57. 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.

AG58. 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)

AG59. 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

AG60. 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

AG61. 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

AG62. 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

AG63. 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))

AG64. 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.

AG65. 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))

AG66. 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))

AG67. 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.

AG68. 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.

AG69. 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).

AG70. 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.

AG71. 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

AG72. 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))

AG73. 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.

AG74. 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))

AG75. 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))

AG76. 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.

AG77. 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.

AG78. 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))

AG79. 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.

AG80. 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).

AG81. 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)

AG82. 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.

AG83. 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.

AG84. 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.

AG85. 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)

AG86. 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

AG87. 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.

AG88. 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).

AG89. 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.

AG90. 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.

AG91. 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

AG92. 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.

AG93. 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).

AG94. 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.

AG95. 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)

AG96. 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.

AG97. 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.

AG98. 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.

AG99. 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.

AG100. 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).

AG101. 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.

AG102. 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.

AG103. 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))

AG104. 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.

AG105. 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.

AG106. 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)

AG107. 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.

AG108. 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.

AG109. 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)

AG110. 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

AG111. 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.

AG112. 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.

AG113. 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.

AG114. 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:

(a) 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.

(b) 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.

(c) 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) 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.

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 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]; 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.

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 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 measuring fair value of 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.

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.

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

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

Commented [LV1]: Note to Board Members
During the December 2024 meeting, the Board recommended placing the category totals below the detailed line items in the Statement of Comprehensive Revenue and Expenses as outlined in the Consequential Amendment PBE IPSAS 1 Illustrative Financial Statement Structure.

These adjustments, highlighted in blue, are reflected on page 87 of this draft ED.

…

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
…	…	…
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

**This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

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 revenue	X	X
…	…	…
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

** This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

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**		
Fees and other revenue from members*	X	X
Revenue from providing goods or services*	X	X
Total revenue from compliance obligations in a binding arrangement	XX	XX
Bequests and Donations*	X	X
Grants received*	X	X
Other revenue without binding arrangements	X	X
Total revenue without binding arrangements	XX	XX
Interest, dividends and other investment revenue	X	X
Total revenue	X	X
…	…	…
Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

*These examples of not-for-profit revenue streams are illustrative and not prescriptive per the disclosure requirements in PBE IPSAS 47.

**This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

…

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**		
Fees and other revenue from members*	X	X
Revenue from providing goods or services*	X	X
Total revenue from compliance obligations in a binding arrangement	XX	XX
Bequests and Donations*	X	X
Grants received*	X	X
Other revenue without binding arrangements	X	X
Total revenue without binding arrangements	XX	XX
Interest, dividends and other investment revenue	X	X
Total revenue	X	X
…	…	…

Total comprehensive revenue and expense attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	XX	XX

*These examples of not-for-profit revenue are illustrative and not prescriptive per the disclosure requirements.

**This illustration of revenue categories can either be presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the accompanying notes.

…

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 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

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.

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:

…

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.

…

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 9~~PBE 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 in PBE IFRS 17 (see paragraph 7(e) of PBE IFRS 17) if the risk transferred is significant, the issuer applies this Standard. Nevertheless, 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, the issuer may elect to apply either this Standard or PBE IFRS 17 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~~ 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 9~~PBE 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 *Revenu*e, 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

…

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~~ <u>PBE IPSAS 47</u>.**

…

Operation Services

18. **The operator shall account for revenue and costs relating to construction or upgrade services in accordance with ~~PBE IPSAS 9~~ <u>PBE IPSAS 47</u>.**

…

Commencement and application

…

<u>**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.**</u>

…

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~~ <u>PBE IPSAS 47 Revenue</u> 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

…

<u>49.1. PBE IPSAS 47 *Revenue*, issued in [Date], amended paragraph 28. An entity shall apply this amendment when it applies PBE IPSAS 47.</u>

…

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*

<u>PBE IPSAS 47 *Revenue*</u>

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 47 Revenue.

Background: IPSAS 47 *Revenue*

BC1. In May 2023, the IPSASB issued IPSAS 47 *Revenue*. This standard establishes the accounting requirements for revenue transactions within a single guideline. Previously, IPSAS literature included two standards for exchange revenue transactions, IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction Contracts*, as well as one standard for non-exchange revenue transactions, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 47 supersedes these three prior standards related to revenue.

BC2. The IPSASB's primary objectives for developing a new revenue standard were to consider the extent to which the revenue recognition model in IFRS 15 *Revenue from Contracts with Customers*, should be introduced into IPSAS literature. Additionally, the IPSASB sought to address various challenges associated with the previous IPSAS revenue standards, including the difficulties in distinguishing between exchange and non-exchange transactions, as well as between restrictions and conditions. Furthermore, there was a need for more guidance on common issues such as accounting for multi-year funding and capital transfers.

BC3. IPSAS 47 was developed as a single, unified revenue standard and introduces a new approach to revenue accounting. It introduces two accounting models and distinguishes between revenue from transactions *with* binding arrangements and revenue from transactions *without* binding arrangements. IPSAS 47 also contains extensive guidance and is accompanied by several illustrative examples to support the application of the new requirements. The requirements in IPSAS 47, particularly for transactions with binding arrangements, are substantially aligned with IFRS 15 (with some public sector modifications). The IPSASB considered that the new approach to accounting for revenue and the related guidance would help address the application challenges mentioned in paragraph BC2 in relation to the previous revenue standards, will increase transparency regarding entities' revenue transactions due to the standard's more robust and objective approach to accounting for revenue, and provide more useful information to users of financial statements through enhanced disclosures about revenue.

NZASB decision to develop PBE IPSAS 47 *Revenue*

BC4. Following the issue of IPSAS 47, the New Zealand Accounting Standards Board (NZASB) decided to develop an internationally aligned, locally relevant PBE Standard using IPSAS 47 as a starting point. The NZASB noted that developing such a PBE Standard would be in accordance with New Zealand's Accounting Standards Framework. The NZASB also noted the following:

(a) The IPSASB's reasons for developing IPSAS 47, as described in paragraph BC2 and BC3 above, also justify the introduction of these requirements into PBE Standards.

(b) The requirements in PBE IPSAS 47 would apply to any PBE (whether not-for-profit (NFP) or public sector) that receives revenue with or without a binding arrangement. This broad applicability ensures that all PBEs reporting revenue will apply the same revenue framework, improving comparability across the PBE sector and eliminates inconsistencies resulting from the application of three different revenue standards.

Commented [LV2]: Note to Board Members (Q3 & Q4) The Basis for Conclusions has been drafted by including details on relevant adjustments incorporated into PBE IPSAS 47. The staff's approach to drafting the BCs is detailed in agenda item 4.2, paragraphs 16 - 17, followed by Q3 and Q4.

(c) The concept of a 'binding arrangement' is prevalent throughout IPSAS literature, most notably in IPSAS 48 *Transfer Expenses*[9]. As PBE Standards are generally primarily based on IPSAS, developing a PBE Standard using IPSAS 47 as a starting point would therefore enhance the coherence of the suite of PBE Standards.

(d) As noted above, PBE IPSAS 47 is substantively aligned with NZ IFRS 15. For PBEs with for-profit subsidiaries – sometimes called 'mixed groups' – it means that fewer accounting adjustments will be needed when preparing group financial statements.

(e) The expected costs to be incurred by constituents include those predominately occurring upon transition to PBE IPSAS 47 (such as the investment of time and resources into understanding the new accounting requirements) as well as those that are expected to occur on an ongoing basis (such as the need to apply significant judgement in the application of the principles to each new binding arrangement, or when a binding arrangement is modified). The NZASB considers that the benefits of developing a PBE Standard using IPSAS 47 as the starting point, as described in paragraph BC4(a)–(d) are expected to exceed these costs.

BC5. In developing PBE IPSAS 47 and PBE IPSAS 48, the NZASB received feedback from a PBE Working Group, consisting of individuals with practical accounting background in public sector and NFP reporting. The objective of this group was for members to share their practical insights and expertise in the public and not-for-profit sectors to assist the NZASB with the development of PBE IPSAS 47 and PBE IPSAS 48. Through discussions with the PBE Working Group and other work performed to understand the New Zealand jurisdictional framework and legal context, the NZASB concluded that the fundamental accounting principles in IPSAS 47 were generally appropriate for application by both public sector and NFP public benefit entities in New Zealand.

BC6. Following its review of the fundamental accounting principles in IPSAS 47, the NZASB considered the nature and extent of modifications to be made to IPSAS 47 to ensure that PBE IPSAS 47 is fit-for-purpose in New Zealand. The NZASB consulted the PBE Working Group on existing issues with the accounting for revenue and transfer expenses in practice, as well as potential implementation issues relating to the requirements in IPSAS 47. The NZASB also considered comments from New Zealand constituents on the IPSASB ED 70 *Revenue with Performance Obligations* and IPSASB ED 71 *Revenue without Performance Obligations,* which were released together with the IPSASB's ED 72 *Transfer Expenses* in 2020.

BC7. Some of the resulting modifications to IPSAS 47 are relatively minor, to ensure coherence within the suite of PBE Standards (e.g., aligning terminology with other PBE Standards) as well as to ensure the NFP context is acknowledged within PBE IPSAS 47. Additionally, Tier 2 disclosure concessions were included that align with similar disclosure concessions in NZ IFRS 15 and PBE IPSAS 23. The more substantive modifications considered or made by the NZASB in developing PBE IPSAS 47 are outlined in paragraphs BC8–BC24.

Binding arrangement revenue deferral for resources received for an entity's internal use

BC8. Based on the compliance obligation principle for revenue transactions with a binding arrangement, a liability (deferred revenue) is recognised for any unsatisfied compliance obligations in respect of the inflow of resources received from the revenue transaction – refer to paragraph 81–86 and Application Guidance paragraphs AG59–AG62. This includes scenarios where resources are received to be used internally.

[9] A PBE Standard developed using IPSAS 48 as a starting point has been exposed for comment at the same time as ED PBE IPSAS 47.

BC9. The NZASB has carefully considered the implications of deferring revenue, and thereby recognising a liability, for resources received for an entity's internal use under PBE IPSAS 47. Per the PBE Conceptual Framework, a liability is defined as a present obligation of the entity to transfer resources as a result of past events. Furthermore, the PBE Conceptual Framework indicates that the transfer must be to another party and as such an entity cannot be obligated to itself. The primary concern with deferring revenue for resources received for an entity's internal use is that there may not be a transfer of resources to another party.

BC10. The NZASB noted that IPSAS 47 allows for the deferral of revenue in cases where resources are received for internal use, provided that the explicit or implicit consequences of non-compliance within the binding arrangement would necessitate the transfer of resources to another party. A liability exists for the resource recipient as it has received resources but has not yet earned revenue by fulfilling its compliance obligations in terms of the requirements in the binding arrangement. When consequences of non-compliance involve a transfer of resources (e.g. return of resources or penalty payment), such scenarios give rise to an unavoidable transfer of resources to another party.

BC11. To address challenges that may occur when resources are received for internal use and the resource recipient has not yet fulfilled the compliance obligation promised in a binding arrangement, the NZASB added Illustrative Example 24A to PBE IPSAS 47. This example illustrates a scenario in which resources are received for internal use, and the resulting consequences of non-compliance necessitate an unavoidable transfer of resources to another party.

NFP enhancements

BC12. The IPSASB developed IPSAS 47 for application by public sector entities. During the drafting process, the NZASB made several enhancements to ensure that PBE IPSAS 47 is suitable for the NFP sector. This involved modifying wording or sentences to be applicable to both public sector and NFP entities. Specific enhancements included:

(a) adding guidance for NFP entities that closely mirrors the NFP guidance in PBE IPSAS 23 *Revenue from Non-Exchange Transactions*, Implementation Guidance Appendix B. This guidance, included in Implementation Guidance Appendix G, has been developed to align with the principles in PBE IPSAS 47 and focuses on bequests, cash donations and fundraising, goods and services in-kind, and uncompleted obligations;

(b) aligning Application Guidance paragraph AG47, sub-paragraphs (a)-(e) with paragraph 52(b) of PBE IPSAS 23. Paragraph AG47 includes examples of binding arrangements that may require a PBE to use resources internally. 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, the NZASB modified the wording of some of these examples for consistency with the New Zealand environment. Similarly, Application Guidance paragraph AG146, sub-paragraph (f) has been added. This paragraph provides examples of services in-kind received by PBEs, encompassing both voluntary and obligatory contributions. IPSAS 23 contains an equivalent list of examples in paragraph 100. To modify PBE IPSAS 23 for NFP application, the NFP example was added in as sub-paragraph (f). As it remains relevant and provides an NFP context, the NZASB have included it in PBE IPSAS 47;

(c) adding an illustrative Statement of Comprehensive Revenue and Expenses for a NFP entity as part of the consequential amendments to PBE IPSAS 1 *Presentation of Financial Reports* to address the gap in the consequential amendments to IPSAS 1 in IPSAS 47. The Implementation Guidance in PBE IPSAS 1 includes illustrative financial statement structures for both public sector and NFP 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.

(d) adjustments to some of the Illustrative Examples to include an NFP entity as one of the parties to the transaction.

Allocation of the transaction price in transactions without binding arrangements

BC13. For transactions with binding arrangements, PBE IPSAS 47 paragraphs 133–140 outline the requirements to allocate the transaction consideration to different compliance obligations. These requirements generally align with those in NZ IFRS 15.

BC14. On the contrary, the IPSAS 47 requirements for transactions without binding arrangements do not offer clear guidance on how to allocate resources received when the resource recipient has multiple obligations to fulfil. The NZASB determined that it may be appropriate to apply the binding arrangement requirements to transactions without binding arrangements when allocating the transaction price to multiple obligations.

BC15. To help PBEs address complexities in these scenarios, the NZASB added a reference in Implementation Guidance Section C3 to the binding arrangement requirements for allocating the transaction price. This provides entities with an approach to proportion and allocate revenue across multiple obligations. Additionally, Illustrative Example 35 was expanded to include Case A1 as a scenario without a binding arrangement, demonstrating how the binding arrangement requirements for allocating transaction prices can also be applied in such cases.

Valuation of non-cash considerations at fair value

BC16. 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 property, plant and equipment). 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 property, plant and equipment 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. However, the concept of COV (and IPSAS 45 and IPSAS 46) is currently not included in PBE Standards.

BC17. Furthermore, PBE IPSAS 17 *Property, Plant and Equipment* paragraph 27 states that 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. Similar requirements exist in other PBE Standards for assets acquired in a non-exchange transaction. 'Fair value' is defined in PBE Standards as *the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction*. 'Current value' is not a defined term in PBE Standards. The PBE Conceptual Framework provides a broad description of 'current value measurement' in paragraph 7.22 and lists current value measurement bases in paragraph 7.23, but that list does not include fair value and instead refers to several other measurement bases (e.g. value in use).

BC18. The NZASB decided that referring to 'current value' in PBE IPSAS 47 could cause confusion regarding how revenue from the receipt of an asset in a non-cash transaction should be measured. 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, AG32, AG105 and IE305. If IPSAS 45 and IPSAS 46 are included in PBE Standards at a future date, the NZASB will reconsider these amendments.

BC19. Additionally, Application Guidance paragraph AG154 has been updated to align with current PBE Standards for non-cash considerations. Sub-paragraph (b) in IPSAS 47 paragraph AG154 refers to 'deemed cost' for the initial measurement of property, plant, and equipment from a non-exchange transaction, but PBE IPSAS 17 requires these items to be measured at fair value instead. Consequently, the NZASB included property, plant and equipment under sub-paragraph (a), which uses fair value as the criteria, and removed sub-paragraph (b).

Appropriations

BC20. The NZASB discussed the requirements relating to appropriations in IPSAS 47 (contained in the Implementation Guidance Section B.3. as demonstrated in Illustrative Example 7). It was noted in Implementation Guidance Section B.3 that appropriations are 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 similar authority. IPSAS 24 does not form part of PBE Standards.

BC21. The NZASB decided to:

(a) remove the reference to the appropriations definition in IPSAS 24 from PBE IPSAS 47 Implementation Guidance Section B.3.

(b) align the description of appropriations with the New Zealand legislative framework by rewording the description 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 struck-through words and adding the underlined words.

BC22. Additionally, the NZASB noted that appropriations are not defined in the PBE Standards but the interpretation of the term should be consistent with its assigned meaning under New Zealand legislation, specifically per the Public Finance Act 1989.

Inventory received in-kind

BC23. PBE IPSAS 23 (paragraph 97.1) has a New Zealand-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 is not practicable to determine fair value because the costs of doing so would outweigh the benefits. This was a change that the NZASB made to PBE IPSAS 23 in response to concerns from New Zealand stakeholders. Those concerns were raised by entities operating charity shops that receive high-volume, low-value second-hand goods for resale. These entities highlighted the practical difficulties and significant costs of measuring such goods at fair value at the time of acquisition and queried the usefulness of doing so. In developing PBE IPSAS 47, the NZASB considered this recognition exemption to still be relevant and has added Application Guidance paragraph AG166.1 to permit this recognition exemption in PBE IPSAS 47.

Removal of Illustrative Example 45 and Illustrative Example 47

BC24. In aligning PBE IPSAS 47 with the specific requirements and context of the New Zealand PBE environment, the NZASB has decided to remove Illustrative Examples 45 and 47 from PBE IPSAS 47. Illustrative Example 45 pertains to a transitional provision under IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*. Illustrative Example 47, demonstrates disclosures under IPSAS 18 *Segment Reporting*. Neither IPSAS 33 nor IPSAS 18 forms part of the PBE Standards. These amendments ensure that the illustrative examples included in PBE IPSAS 47 are directly applicable and relevant to the New Zealand context.

Questions to the Board members

Q3. Does the Board AGREE with each of the key topics covered in the Basis for Conclusions and are there any other topics that should be added?

Q4. Does the Board AGREE with the details included in each of the key topics covered in the Basis for Conclusions?

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 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. 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 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.

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.

Section D: Revenue from Transactions with Binding Arrangements

D.1 Identifying Compliance Obligations in a Binding Arrangement

Binding arrangements can 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

Bequests

Application Guidance Paragraphs AG161–AG163

G2. 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.)

G3. 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 house or 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.

G4. PBE IPSAS 47 does not explicitly state whether a bequest may be the subject of a binding arrangement. The definition of a bequest in PBE IPSAS 47 (the transfer of resources according to the provisions of a deceased person's will) suggests that it is unlikely to involve a binding arrangement. However, each bequest should be

Commented [LV3]: Note to Board Members (Q1)
At the October 2024 Board meeting, the Board agreed to include NFP Implementation Guidance in PBE IPSAS 47, consistent with the approach used in PBE IPSAS 23 NFP Implementation Guidance Section B. Refer to agenda item 4.2 paragraphs 8-11 for further details. Also refer to Q1 included below.

evaluated based on its specific terms and conditions. This evaluation determines whether both parties (i.e., the entity as the resource recipient and the deceased person's estate or trust as the resource provider) have enforceable rights and obligations. The presence of enforceable rights and obligations indicates whether the transaction constitutes a binding arrangement. This, in turn, affects the recognition and measurement of revenue.

G5. The recognition of an asset for the receipt of benefits from a bequest depends on – (1) the entity's ability to demonstrate control of the resources embodying future economic benefits or service potential as a result of a past event, (2) the probability of future economic benefits or service potential flowing to the entity, and (3) if the resources can be measured reliably. Control arises when the entity has an enforceable claim to the resources, which could arise on the death of the testator or the granting of probate, as determined by jurisdictional laws and regulations. However, if claims challenging the will are made, or if the court is required to interpret the will, distribution is delayed until these issues are resolved, impacting the probability of an inflow of resources as well as the entity's control of the resources. Similarly, if a beneficiary has a "life interest" in an asset, or the right to use an asset or receive revenue from it for a set period (e.g., 20 years or until remarriage), the entity's claim on the remaining assets may only be enforceable after these interests expire. The entity must evaluate whether the claim to the resources of the deceased estate is enforceable, gives rise to probable future economic benefits and can be reliably measured before recognising the bequest as an asset and revenue.

G6. Table A below illustrates the treatment of some common bequest scenarios. These scenarios are illustrative only – they do not address all possible variations, including situations where the terms of the binding arrangement are breached or the obligation is not fulfilled. 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 BEQUEST

Type of Bequest	**Is the bequest expected to be a binding arrangement?**	**Accounting Treatment by the NFP Entity**
1. Bequest of a percentage of an estate without specific terms relating to the use of the funds (i.e. no enforceable obligations exist for the entity).	No. Since the terms of the bequest do not impose any enforceable obligations on the NFP entity, the entity does not have both an enforceable right and an enforceable obligation, and therefore the bequest is not a binding arrangement.	If the bequest is without a binding arrangement, recognise revenue when the bequest is received or receivable per the requirements of transactions without binding arrangement in paragraphs 18 - 25. The entity recognises this inflow of resources as an asset if it presently controls the resources as a result of past events, and the value of the asset can be measured reliably.
2. Bequest restricted for specific purposes WITHOUT a condition to return unspent funds or funds spent for a purpose other than the	Depends. Each arrangement needs to be considered based on its own terms to determine if it results in both parties having enforceable rights and enforceable obligations.	If a binding arrangement exists, recognise revenue when each compliance obligation is satisfied. If the bequest is without a binding arrangement, recognise revenue upon recognising the asset, unless an enforceable obligation exists. Then

Type of Bequest	Is the bequest expected to be a binding arrangement?	Accounting Treatment by the NFP Entity
purpose specified in the bequest.		revenue should be recognised when the obligation is satisfied.
3. Bequest restricted for specific purposes WITH conditions requiring return of unspent funds or funds that were not used for the purposes specified in the bequest.	Yes. When a bequest includes conditions requiring the return of unspent funds to the estate or trustee, it is expected that both the resource provider and the resource recipient have enforceable rights and enforceable obligations and therefore a binding arrangement may exist.	Recognise revenue when the compliance obligations are satisfied (e.g., project milestones completed). Recognise a binding arrangement liability for funds received that have not yet been spent.
4. Life interest bequest where a beneficiary has lifetime use before final transfer to the NFP entity (e.g. a house that a surviving family member can use (but not sell) until that family member's death, at which point the NFP has full rights to the residual estate).	Depends. Each arrangement needs to be considered based on its own terms to determine if it results in both parties having enforceable rights and enforceable obligations.	When a binding arrangement exists, identify the compliance obligations and recognise revenue as these compliance obligations are fulfilled. In cases where there is no binding arrangement, provided that the amount (e.g. the value of the residual estate to be transferred to the NFP after the beneficiary dies) can be reliably measured and no further obligations exist, recognise revenue and record an asset (such as a receivable) at the transaction consideration when there is an enforceable claim and the asset is controlled.
5. Bequest held in a perpetual trust not controlled by the NFP entity (e.g. a trust that is managed by independent trustees who must distribute all or part of the annual surplus to beneficiaries, including the NFP entity).	Depends. Each arrangement needs to be considered based on its own terms to determine if it results in both parties having enforceable rights and enforceable obligations. However, a bequest held in a perpetual trust that is not controlled by the entity is generally considered to be without a binding arrangement, as the entity does not have enforceable rights to specific benefits from the trust beyond	If a binding arrangement exists, identify the compliance obligations and recognise revenue as these compliance obligations are fulfilled. In cases where there is no binding arrangement, recognise revenue when the entity has an enforceable right to receive distributions from the trust and no further obligations exist. If an enforceable obligation exists, revenue should be recognised when the obligation is satisfied.

Type of Bequest	Is the bequest expected to be a binding arrangement?	Accounting Treatment by the NFP Entity
	what the trustees may choose to distribute.	
6. Bequest is contingent on the resolution of unresolved claims.	No. Due to the unresolved claims, it is likely that the NFP entity does not have an enforceable right, and therefore no binding arrangement exists.	Given the significant uncertainty surrounding the unresolved claims, neither revenue nor an asset should be recognised until the enforceable claim is probable and an amount can be reliably measured. The entity should also assess whether disclosure as a contingent asset may be appropriate.
7. Residual bequest (e.g. the remaining portion of an estate is allocated to the NFP entity after all specific gifts, debts, and claims against the estate have been settled) with no obligations to the entity. **The recognition of the bequest may depend on whether the residual amount is determined or uncertain (i.e. unresolved claims may exist against the estate).**	No. Since the terms of the bequest do not impose any enforceable obligations on the NFP entity, the entity does not have both an enforceable right and an enforceable obligation, and therefore the bequest is not a binding arrangement.	If the bequest is without a binding arrangement, recognise revenue when the bequest is received or receivable per the requirements of transactions without binding arrangement in paragraphs 18 - 25. The key consideration in both scenarios (i.e. residual amount is determined or uncertain) is whether the entity has control over the resources and whether the value of the inflow can be measured reliably; if these criteria are met, the entity recognises the inflow as an asset and revenue resulting from past events. Also refer to scenario 1 and 6 above which elaborates on the accounting treatment for a bequest where the amount is determined or uncertain.

G7. 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.

Cash Donations and Fundraising

Application Guidance paragraphs AG164–AG167

G8. NFP entities employ a variety of methods of fundraising. Some of the methods of fundraising employed by NFP 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 a service provider (the fundraiser)	A fundraiser, which may or may not be an entity owned by the entity, may be used to collect funds. The fundraiser may pass the gross amount collected to the entity and then receive a set fee in return for their services. Alternatively, the 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 NFP. The entity (i.e. the NFP) may receive a percentage of sales or a percentage of profit.
Concerts and similar events	A fundraising activity, such as a concert, may be organised by a third party with net proceeds going to the entity.
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.

G9. Given the diverse methods of fundraising, entities should describe their fundraising methods and disclose the accounting policies used to recognise fundraising revenue and related expenses, emphasising whether the transactions are with or without binding arrangements. 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).

G10. Fundraising may be subject to enforceable obligations depending on the type of fundraising. General-purpose fundraising is less likely to attract enforceable obligations, while donations for specific projects (e.g., to a local conservation group for it to reconstruct an ecologically damaged area) may be subject to enforceable obligations. Under PBE IPSAS 47, entities should assess whether the transactions are with or without binding arrangements and account for revenue accordingly.

In-house Fundraising

G11. PBE Standards require entities to disclose material items and limit the extent to which revenue can be offset by related expenses (PBE IPSAS 1 paragraphs 48–50 and 106–107). PBE IPSAS 47 reinforces these requirements, emphasising the importance of transparent reporting to demonstrate accountability to donors.

Fundraising by a Service Provider (the fundraiser)

G12. The fundraiser may be engaged to conduct fundraising activities on behalf of a NFP entity. These arrangements often resemble an agency relationship, where the fundraiser is authorised to act on behalf of the NFP entity. To determine whether the gross or net funds raised by the fundraiser should be recognised as revenue, the NFP entity must assess the principal vs agent requirements outlined in PBE IPSAS 47 Application Guidance paragraphs AG117–AG125.

G13. If the arrangement with a fundraiser constitutes an agency relationship (i.e., the fundraiser acts as the agent, and the NFP entity is the principal), the NFP entity recognises gross revenue when it obtains control of the funds raised (i.e. when the funds are received or receivable). The NFP entity also recognises fundraising

expenses, including fees or commissions paid to the fundraiser. The fundraiser, acting as the agent, would recognise only the fee, commission, or net consideration retained as revenue (paragraph AG122).

Sales of Goods or Services and hosting concerts or similar events

G14. If an entity does not control the goods or services sold by other entities for its benefit, or the activities organised by third parties (such as a concert for the entity's benefit), it typically does not have control of the funds raised until they are received. In such cases, the NFP entity generally does not have an enforceable right, and the transaction may be concluded to be without a binding arrangement. Revenue is recognised upon receipt (i.e. when the asset recognition requirements are met), unless enforceable rights or obligations exist that justify earlier recognition.

G15. In some cases, an agency relationship may exist. For further details on revenue recognition in such scenarios, refer to paragraph G12 – G13 above.

Pledges

G16. Pledges are not normally recognised as revenue (or assets) until cash is received, as they are typically non-binding and cancellable. Pledges may meet the definition of a contingent asset and may require disclosure in the notes.

Sales by the Entity

G17. 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 presented in the statement of comprehensive revenue and expense. Net revenue raised may be disclosed in the notes. The timing of revenue recognition should reflect whether a binding arrangement exists and comply with the requirements of PBE IPSAS 47.

Goods and Services In-Kind

Application Guidance paragraphs AG143-AG149 and AG164-AG167

G18. Entities may receive donations of goods and services, either with or without a binding arrangement. In accordance with PBE IPSAS 47, entities must evaluate whether enforceable rights and enforceable obligations exist for both parties, along with at least one compliance obligation. This evaluation determines the recognition and measurement requirements for the donated goods or services based on whether a binding arrangement exists. Each arrangement must be assessed individually, taking into account its specific terms and conditions.

G19. Donated goods used by the entity itself will normally be items of property, plant and equipment that have been transferred to the entity, for example, donated office equipment. In most cases estimations of fair value (such as the current market price of the donated item) can be made, allowing recognition at the time of acquisition when the definition and recognition criteria of an asset are met.

G20. 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 measuring the fair value at the date of acquisition are expected to exceed the benefits, an entity recognises revenue when the donated goods are sold.

G21. Certain entities engage in the redistribution of donated goods, such as food banks which collect and distribute donated food. Generally, the recipient does not have an enforceable right to receive the food, nor does the provider have an enforceable obligation to deliver the food. Therefore, generally, the transaction is considered

to be without a binding arrangement. When determining the fair value of the donated goods, entities may use estimation techniques, such as averaging the value of standard food parcels created from the goods received. For goods with a limited remaining life or that are damaged, their fair value at the date of acquisition and reporting should reflect these conditions. If it is impracticable to reliably measure the fair value of goods meeting the definition of inventories in PBE IPSAS 12 at the date of acquisition—because the costs of measuring the fair value are expected to exceed the benefits—revenue is not recognised at the date of acquisition. In such cases, if the donated goods are redistributed free of charge, no transaction is recognised in the financial statements.

G22. 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.

G23. Services in-kind are likely to be hours of work provided by volunteers for which the parties generally do not have both enforceable rights and enforceable obligations. The volunteers are likely to be carrying out work as directed by the entity. Application Guidance paragraphs AG143–AG149 offer additional details on accounting for services in-kind. Paragraphs 170(f), 175, and 176 outline the disclosure requirements.

Uncompleted Service Arrangements

G24. 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. Under PBE IPSAS 47, entities must determine whether these arrangements are with or without binding arrangements, as this affects both the accounting treatment and the timing of revenue recognition.

G25. Service delivery arrangements often span multiple financial years, particularly when the financial years of the funder and the service provider differ. Such situations can create challenges in revenue recognition and reporting. Implementation Guidance Section E: Multi-Year Funding, provides guidance on how to account for arrangements that involve the provision of resources over multiple years to ensure users of financial statements understand the financial implications of such agreements. Entities may be required to disclose details about the nature, timing and amount of these uncompleted arrangements as per paragraphs 167–192.

Questions to the Board members

Q1. Does the Board AGREE with the proposed NFP Implementation Guidance Section G?

Illustrative Examples

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[10] 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.

[10] 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 government agency (the Agency) signed a memorandum of understanding with a local government (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

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 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 (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 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 Agency) enters into a binding arrangement to construct a residential building for the Ministry 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 Agency) enters into a binding arrangement with the Ministry 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 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 (Ministry T) provides CU10 million to a 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 to another party) in accordance with paragraph 83 and AG62 of PBE IPSAS 47.

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

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. 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 (Agency H) is developing multi-unit residential complexes to be sold to a Not-for-Profit entity (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 (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.

Binding Arrangement Liability Recognition when transaction involves internal use of resources

Commented [LV4]: Note to Board Members (Q2)
At the December 2024 meeting the Board provided feedback on IE24A. The example has been adjusted for this feedback. Refer to Agenda item 4.2, paragraphs 12 - 15, for further detail as well as Q2 included below.

IE145.1 Example 24A demonstrates the recognition of a binding arrangement liability when resources are received for internal use, and the consequences of non-compliance with the terms of the binding arrangement result in an unavoidable transfer of resources to another party. This example illustrates the requirements in paragraph 83 and AG62 of PBE IPSAS 47.

Example 24A – Binding Arrangement Liability Recognition due to Consequences of Non-compliance for Transactions Involving Receipt of Resources for Internal Use

IE145.2 A not-for-profit entity with a reporting date of 31 December enters into a binding arrangement with a government department to deliver in-house training to its staff during the 20X1 financial year. The training material is pre-existing, and the compliance obligation is limited to delivering the training to the staff members. The arrangement requires that the training be completed within the 20X1 financial year.

IE145.3 The government provides funding of $100 per staff member for the entity's 150 staff members (i.e. CU15,000) at the start of the year. Revenue is recognised as training is provided to staff members. The arrangement stipulates that if training is not delivered to all 150 staff members by the end of the year, the unspent portion of the funds related to the undelivered training must be transferred to a third-party organisation. This organisation will use the funds to provide equivalent training to its own staff.

IE145.4 Upon receiving the $15,000, the entity records a binding arrangement liability, deferring revenue recognition. At this point, the entity has a present obligation due to a past event to incur an unavoidable transfer of resources to another party.

IE145.5 By 31 December 20X1, only 120 staff members have received the training, leaving 30 staff members who have not been trained. In accordance with the terms of the binding arrangement, the consequences of not delivering training to these 30 staff members is that the entity is required to transfer $3,000 (representing $100 per untrained staff member) to the third-party organisation.

IE145.6 As of 31 December 20X1, the Entity has an enforceable obligation due to the consequences of non-compliance in the binding arrangement. This results in an unavoidable outflow of resources to another party. Accordingly, the Entity recognises a binding arrangement liability of CU3,000 in its Statement of Financial Position.

IE145.7 This example illustrates how liabilities can be deferred under PBE IPSAS 47 when resources are received for internal use under a binding arrangement. In accordance with paragraph 83 and AG62, the deferral is based on the unavoidable transfer of resources to another party due to the consequences of non-compliance.

~~IE145.1 Example 24A focuses on binding arrangement liability recognition for receipt of resources for internal use. This is to illustrate the requirements in paragraph 83 and AG62 for recognition of a binding arrangement liability in a transaction involving receipt of resources for an entity's internal use, when the consequences of the entity not satisfying its compliance obligation, as a result of these past events, is to transfer resources to another party.~~

~~*Example 24A – Binding Arrangement Liability Recognition for Receipt of Resources for Internal Use*~~

~~IE145.2 A not for profit entity with a reporting date of 31 December enters into an arrangement with a government department to perform monthly in-house training of the entity's staff throughout the 20X1 financial year. Funding, amounting to CU15,000, will be provided by the government and is intended to be used internally by the entity to facilitate the in-house training to its staff. Revenue can be recognised according to the number of staff attending the training. The arrangement requires the entity to return any unspent funds, or funds not spent in accordance with the terms of the binding arrangement, to the government after the year has lapsed. The entity concludes that the transaction should be accounted for as a binding arrangement.~~

~~IE145.3 Upon receiving the CU15,000, the entity records a binding arrangement liability, deferring revenue recognition. At this point, the entity has a present obligation, due to a past event and will have to transfer resources to another party. The transfer of resources to another party may arise from the consequence of the entity not satisfying its compliance obligation. Accordingly, at year end, if the full CU15,000 of funds have not been used for in-house training, the entity will face unavoidable consequences to return the funds to the government (i.e. the resource provider).~~

~~The following journal entries illustrate how the entity accounts for the binding arrangement liability arising from the receipt of resources for internal use:~~

~~The entity receives cash of CU15,000 on 1 January 20X1 (cash is received in advance of performance):~~

~~Cash~~	~~CU15,000~~
~~Binding Arrangement Liability~~	~~CU15,000~~

~~Throughout the year, the entity delivers in-house staff training and based on number of staff that attended revenue of CU12,000 can be recognised. The journal entries for recognising revenue throughout the year are:~~

~~Binding Arrangement Liability~~	~~CU12,000~~
~~Revenue~~	~~CU12,000~~

~~By 31 December 20X1, no further in-house training will be delivered. An amount of CU3,000 has not be used for in-house training during the 20X1 financial year. As the arrangement requires the entity to return the unspent portion of the funds after year end to the government, the entity has to transfer resources to another party. Therefore, the government is able to enforce their rights and impose a consequence that requires an incremental transfer of resources. Accordingly, the entity recognises a binding arrangement liability of CU3,000 in its Statement of Financial Position as at 31 December 20X1.~~

~~IE145.4 This example illustrates how liabilities can be deferred under PBE IPSAS 47 when resources are received for internal use under a binding arrangement. In accordance with paragraph 83 and AG62, the deferral is based on the unavoidable transfer of resources to another party, due to the consequences of non-compliances.~~

Question to Board members

Q2. Does the Board AGREE with the proposed adjusted illustrative example 24A?

Measurement of Revenue Transactions with a Binding Arrangement

Variable Consideration

Example 25 – Estimating Variable Consideration

IE146. A local government (Government L) enters into a binding arrangement with the 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[11]
Inventory	

(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[12]
Revenue	
Cost of sales	CU80 million
Asset for trains to be returned	

[11] This example does not consider expected costs to recover the asset.

[12] 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.

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 (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 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 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[13]	
Binding arrangement liability		CU494,000

(c) Recognise revenue for the transfer of the vehicles:

[13] CU494,000 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

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.

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 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
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.

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) 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) negotiates with Entity B (Entity B) to purchase 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 Health Agency (Agency H) provides vouchers that entitle qualifying individuals (the patients) to subsidised medical 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[14]	
Revenue		CU12,500[15]
Refund Liability (Binding Arrangement Liability)		CU2,500

[14] CU150 per examinations × 100 examinations

[15] CU125 transaction consideration per examinations × 100 examinations

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, 46 and 48–50 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 (Example 44);

(b) [Not used];

(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

(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 and paragraph IE255 – [Not used]

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 and paragraphs IE258 and IE259 – [Not used]

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[16]	2,400[17]	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:

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this binding arrangement as of 31 December 20X7	1,575[18]	788[19]	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.

16 CU4,800 = CU400 × 12 months.

17 CU2,400 = CU400 × 6 months

18 Transaction consideration = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognised evenly over 24 months at CU1,575 per year.

19 CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

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) 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 water utility operates the water infrastructure 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 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 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. Aid Agency determines that the fair 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.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed new revenue accounting standard

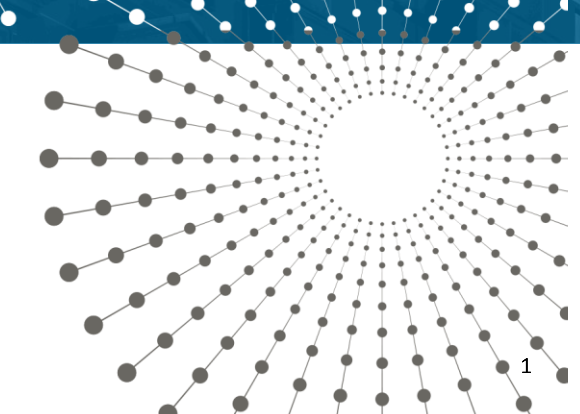
Tier 1 & 2 Public Benefit Entities

PBE IPSAS 47 *Revenue*

Consultation document

June 2025

Comment period closes xx December 2025



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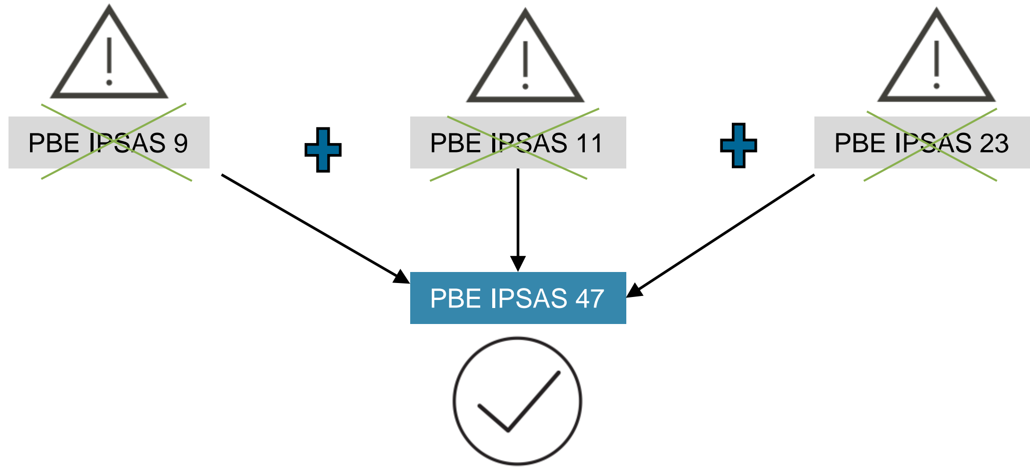
PART ONE: Introduction

A. What is this consultation about?

Public benefit entities (PBEs) in both the public and the not-for-profit (NFP) sectors enter into a wide variety of revenue arrangements, some of which can be quite complex. These arrangements may involve multiple obligations, varying payment terms, and conditions that require careful consideration to ensure accurate revenue recognition.

This consultation proposes to introduce a new PBE Standard for revenue based on the International Public Sector Accounting Standards Board (IPSASB) standard IPSAS 47 *Revenue,* with a proposed mandatory date of 1 January 2029. The proposed standard would supersede PBE IPSAS 9 *Revenue from Exchange Transactions*, PBE IPSAS 11 *Construction Contracts*, and PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The proposed standard aims to improve consistency and comparability in financial reporting and provide more robust guidance for revenue recognition, reflecting the complexities of modern revenue arrangements.



In addition to aligning with the IPSASB Standard, the proposals are also closely aligned with the for-profit revenue accounting standard, NZ IFRS 15 *Revenue from Contracts with Customers*. Therefore, the proposals will allow New Zealand PBEs to benefit from the latest international thinking and guidance materials available for revenue recognition principles. This will also make it easier for 'mixed groups' containing both PBEs and for-profit entities to prepare group financial statements.

A. What is this consultation about? (cont.)

Background

In May 2023, the IPSASB issued IPSAS 47. IPSAS 47 supersedes the IPSASB's old revenue standards and introduces a new approach to revenue recognition by distinguishing between revenue transactions arising from binding arrangements and those without binding arrangements. The binding arrangement principle is explained in more detail in Section F.

For transactions *with* binding arrangements, revenue is recognised based on the satisfaction of compliance obligations, reflecting the transfer of promised goods or services to another party. This approach aligns with the principles introduced in NZ IFRS 15.

For transactions *without* binding arrangements, revenue is generally recognised as or when the entity obtains control of resources unless a liability exists, in which case revenue is recognised when the liability is satisfied.

In New Zealand, PBE Standards for Tier 1 and Tier 2 PBEs are primarily based on IPSAS. When proposing to issue a new PBE Standard based on an IPSAS, the New Zealand Accounting Standards Board (NZASB) considers and seeks feedback on the need for New Zealand-specific amendments and/or guidance.

The accompanying Exposure Draft (ED) PBE IPSAS 47 *Revenue* is a draft of the proposed PBE Standard, which would be applicable to Tier 1 and Tier 2 PBEs.

Coherence with other PBE Standards

Certain key principles in the proposed PBE IPSAS 47 align closely with ED PBE IPSAS 48 *Transfer Expenses,* which addresses the accounting for expenses such as grants and social assistance payments. Together, these proposed standards ensure consistent recognition principles for both revenue and transfer expenses for PBEs. However, while the proposed PBE IPSAS 47 applies to all revenue transactions, the proposed PBE IPSAS 48 is specifically limited to expenses arising from transactions, 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.

Additionally, the proposed PBE IPSAS 47 also reflects the updated PBE Conceptual Framework, particularly its criteria for liability recognition and equally unperformed binding arrangements.

A note on IPSASB ED 70 and ED 71

In 2020 we consulted in New Zealand on IPSASB ED 70 *Revenue with Performance Obligations* and IPSASB ED 71 *Revenue without Performance Obligations*, which was released together with the IPSASB's ED on transfer expenses.

Concerns were raised, both internationally and from New Zealand stakeholders, on the definition and criteria for performance obligations. When finalising IPSAS 47, the IPSASB ultimately decided to change focus to use binding arrangements and compliance obligations as a fundamental concept for revenue accounting.

B. How to provide feedback

Responding to consultation questions

We are seeking comments on the questions raised in this Consultation Document. We will consider all comments received before finalising the proposals for PBE IPSAS 47.

Please feel free to comment on any or all of the questions or any part of the proposed Standard. We also welcome any additional feedback on any areas of the proposed Standard not covered by the questions.

A dedicated consultation page provides information and guidance materials for reference.

Making a submission

You can provide feedback to us via:

- the consultation page on our website (where you can complete the online form and/or upload your comments); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

Please include 'PBE IPSAS 47 *Revenue*' in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

For further engagement, we invite you to join our consultation drop-in sessions. Please visit our website for further details.

The closing date for submissions is 3 December 2025.

Projected Timeline

June 2025
ED PBE IPSAS 47 issued for public consultation

xx December 2025
Submissions due to the NZASB

Q3 2026
PBE IPSAS 47 issued as final Standard

1 January 2029
PBE IPSAS 47 *Revenue* mandatory for periods beginning on or after this date

Publication of submissions, the Official Information Act and the Privacy Act

We intend to publish all submissions on the XRB website unless they may be defamatory. However, all submissions remain subject to the Official Information Act 1982 and may be released in part or in full. The Privacy Act 2020 also applies. If you wish to request that your submission, or specific parts of it, be withheld from publication or disclosure, please identify the relevant sections and provide the grounds for withholding under the Official Information Act 1982 (e.g. that disclosure would likely unfairly prejudice the commercial position of the person providing the information).

PART TWO: Questions for Respondents

C. Questions for respondents

The questions for respondents focus on the costs and benefits of implementing the proposed Standard as well as the specific proposals within PBE IPSAS 47, as discussed in Section 4 of this Consultation Document.

Benefits and cost consideration (Section D)

1. What are the anticipated costs and benefits of adopting PBE IPSAS 47 for your organisation? Please provide specific examples of both initial and ongoing costs, as well as any expected benefits.

Key principles in revenue accounting (Section F)

2. Do the binding arrangement, enforceability and compliance obligation principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

Revenue recognition (Section G)

3. Do you agree with the proposed approach to revenue recognition for transactions *without* binding arrangements? Are there any specific challenges you foresee in applying this approach?
4. Do you agree with the proposed approach to revenue recognition for transactions *with* binding arrangements? Are there any specific challenges you foresee in applying this approach?

Implementation and specific issues (Section H)

5. What challenges do you anticipate in implementing PBE IPSAS 47, including any specific transactions or scenarios where additional clarification may be needed? What support or guidance would be most helpful to assist with these challenges?

Disclosure and RDR concessions (Section I)

6. Do you consider the disclosure requirements in PBE IPSAS 47 to be appropriate and proportionate to the needs of users of PBE financial statements?
7. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

Mandatory date and other comments (Section J)

8. Do you agree with the proposed mandatory date of 1 January 2029?
9. Do you have any other comments on the ED?

PART THREE: Benefits and cost consideration

D. Benefit vs Cost consideration

In this section, we aim to provide an analysis of the anticipated costs and benefits associated with the implementation of the proposed PBE IPSAS 47. Understanding the financial and operational implications is crucial for us to make informed decisions when developing new accounting standards. Your feedback will be invaluable in ensuring that the proposed Standard is both practical and beneficial for all parties involved.

Benefits of the proposals

The proposed PBE IPSAS 47 is expected to result in the following benefits:

International alignment: The proposed PBE IPSAS 47 is closely aligned with the principles of NZ IFRS 15, particularly for transactions involving binding arrangements. This alignment offers PBEs comprehensive guidance, global harmonisation, and increased consistency in revenue reporting. Given this alignment and the growing complexities and judgement in revenue transactions, the proposed PBE IPSAS 47 is well-equipped to address these increased complexities.

Information transparency and higher quality financial reporting: The proposed PBE IPSAS 47 has enhanced transparency regarding the substance of an entity's revenue transactions by introducing a more robust and objective approach to the recognition and measurement of revenue. The current revenue PBE Standards have caused inconsistencies due to the difficulty in distinguishing between exchange and non-exchange transactions and have constraints on deferring revenue. Given these challenges and other limitations, higher quality financial reporting in New Zealand would be achieved through adoption of this proposed Standard.

Increased comparability: The proposed PBE IPSAS 47 enhances comparability in financial reporting by providing a unified framework for recognising revenue across various types of arrangements. This ensures that PBEs operating in similar circumstances report revenue in a consistent manner. The proposed standard also bridges gaps between sectors, enabling more meaningful benchmarking between public sector entities, NFP organisations and for-profit counterparts.

Coherence: As noted in section A, the core principles of the proposed PBE IPSAS 47 are consistent with those of the proposed PBE IPSAS 48. This coherence is further supported by alignment with the updated PBE Conceptual Framework and other PBE Standards.

Easier reporting for 'mixed groups': As noted above, the proposed PBE IPSAS 47 is substantively aligned with NZ IFRS 15. For PBEs with for-profit subsidiaries – sometimes called 'mixed groups' – this means that fewer accounting adjustments are needed when preparing group financial statements.

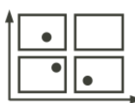
D. Benefit vs Cost consideration (cont.)

Costs of the proposals

The adoption of the proposed PBE IPSAS 47 is anticipated to incur the following costs:

Time and resource investment: As with any new accounting standard, there will be costs associated with adoption and familiarisation. Preparers, auditors, and other stakeholders will need to invest time and resources in understanding and applying the new principles and guidance in the proposed PBE IPSAS 47, which is notably detailed and extensive. While education and guidance materials will be provided to support the transition, some costs will still be incurred. The majority of these are expected to be one-off expenses during the implementation phase, with minor ongoing costs for periodic training of new staff.

Judgement and ongoing application costs: Implementing the proposed PBE IPSAS 47 is expected to require significant judgement, potentially leading to challenges in ensuring consistent application. PBEs may incur ongoing costs when entering into new revenue arrangements or modifying existing ones, as these will require reassessment under the proposed Standard. NFP entities, given the often-high volume of arrangements they manage and potential resource constraints, may find these costs particularly challenging. While many of these costs are anticipated to be concentrated during the initial transition, ongoing expenses will persist as PBEs continually assess and apply the proposed standard to new or revised arrangements.



Adoption effort vs. actual change: Implementing the proposed PBE IPSAS 47 may involve significant effort due to the proposed Standard's length and complexity. However, for many PBEs, the practical impact on their revenue recognition processes may be minimal, leading to questions about the overall value of adopting such a comprehensive standard. While this represents a one-time implementation challenge, it is not necessarily a direct cost but rather a consideration of the balance between the effort required and the anticipated benefits.

In conclusion: Adopting the proposed PBE IPSAS 47 in New Zealand is expected to enhance the quality and consistency of revenue reporting within the NFP and public sectors. By consolidating revenue accounting guidance into a single standard, the proposed PBE IPSAS 47 addresses the limitations of previous standards. The alignment with NZ IFRS 15 principles further ensures that New Zealand's PBEs can benefit from global best practices in revenue recognition, reducing inconsistencies in reporting. This will improve comparability and transparency in financial reporting.

While the initial adoption may require effort and investment, the long-term benefits are expected to outweigh the costs.

Question

1. What are the anticipated costs and benefits of adopting the proposed PBE IPSAS 47 for your organisation? Please provide specific examples of both initial and ongoing costs, as well as any expected benefits.

Invitation for field testing of PBE IPSAS 47

To ensure that the adoption of the proposed PBE IPSAS 47 meets the practical needs of public sector and NFP entities in New Zealand, we invite preparers to participate in field testing the proposed Standard. Field testing will help identify potential challenges, provide insights into implementation, and assess the cost vs benefit impact of adopting the proposed PBE IPSAS 47.

If you are interested in participating or would like further details, please contact us at accounting@xrb.govt.nz

PART FOUR: Overview of Proposals

E. Overview of proposals

Summary

In Part 4, we highlight the key aspects of the proposals and those areas where we are particularly interested in your feedback. Part 4 is organised as follows.

F. Key principles in revenue accounting

G. Recognition of revenue transactions

H. Implementation and specific issues

I. Disclosure and RDR concessions

J. Mandatory date and other comments.

Approach to developing PBE IPSAS 47

The proposed PBE IPSAS 47 is closely based on IPSAS 47. In accordance with its usual approach to developing a PBE Standard based on an IPSAS, the NZASB has:

aligned terminology with that used in PBE Standards (for example, PBE Standards include the concept of other comprehensive revenue and expense);

ensured coherence within PBE Standards by considering the existence of New Zealand-specific standards or requirements;

considered the need for any modifications to the IPSAS, to make the proposed Standard more appropriate for PBEs in New Zealand, such as making NFP enhancements; and

identified reduced disclosure requirements (RDR) for Tier 2 PBEs, with respect to disclosure requirements in the proposed standard.

Terminology used in the proposed Standard

The proposed PBE IPSAS 47 introduces several new terms into PBE Standards, which are discussed further throughout this document. Some of these new terms, noted in the table below, are similar, but not identical, to those used in the proposed PBE IPSAS 48.

Resource recipient ***(the reporting entity)***	**An entity that receives resources (e.g. goods, services or other assets) from the resource provider and recognises revenue when or as compliance obligations, or any enforceable obligation, are satisfied.** The proposed PBE IPSAS 48 uses the term *transfer recipient* but the scope of the proposed new Standard for transfer expenses is narrower, as it only includes goods, services, or other assets received from another party *without* directly providing any good, service, or other asset in return.
Resource provider	**An entity that provides a good, service or other asset (e.g. cash) to a resource recipient.** The proposed PBE IPSAS 48 uses the term *transfer provider*, for reasons similar to those noted above.

F. Key Principles for Revenue Accounting

Binding Arrangement

The proposed PBE IPSAS 47 has been developed as a single source for revenue accounting guidance for PBEs. The proposed standard does not include a distinction between exchange and non-exchange transactions. Instead, it contains the following two accounting models:

- Revenue from transactions ***with*** binding arrangements; and
- Revenue from transactions ***without*** binding arrangements.

Binding Arrangement definition

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.

The concept of a binding arrangement is fundamental to the accounting for revenue. Therefore, a key judgement for PBEs to make is whether or not a revenue transaction arises from a binding arrangement. This is the first step in accounting for the transaction. The proposed Standard includes extensive guidance to assist PBEs with this judgement, in particular with respect to the enforceability of an arrangement.

Enforceability

The definition of a binding arrangement is underpinned by the principle of enforceability.

An arrangement is enforceable when at least two of the parties are able to enforce their respective rights and obligations through various mechanisms. An arrangement is enforceable if it includes:

a) clearly specified rights and obligations for at least two of the parties to the arrangement; and

b) remedies for non-completion by each of these parties which can be enforced through the identified enforcement mechanisms.

Refer to ED PBE IPSAS 47 paragraphs 9–16 and Application Guidance paragraph AG10–AG31 for further information on the binding arrangement and enforceability concepts, as well as the mechanisms of enforceability that PBEs should consider.

Compliance obligation

Additionally, ED PBE IPSAS 47 introduces the new concept of a ‘compliance obligation’ in a binding arrangement.

Compliance Obligation definition

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

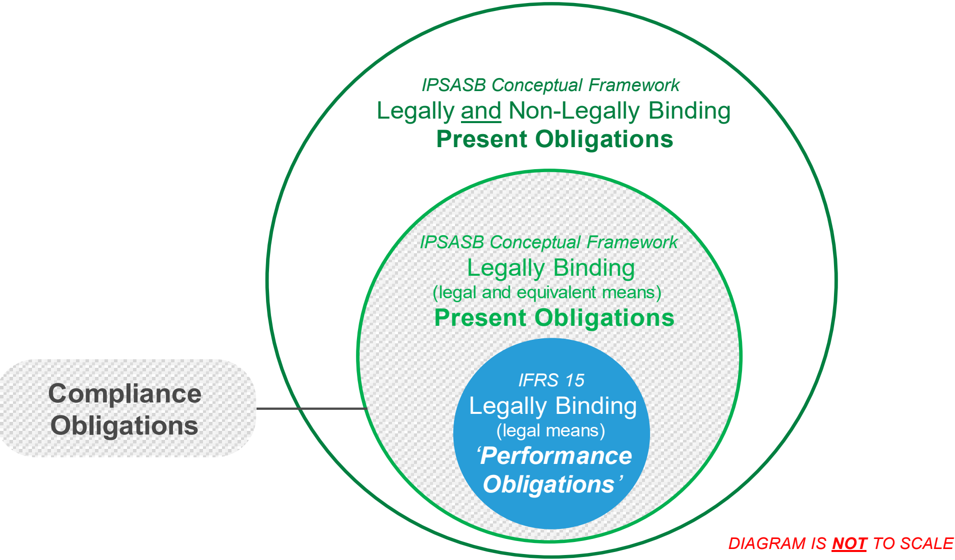
Compliance obligations in binding arrangements are *units of account* that determine distinct goods or services promised, and are mechanisms used for the recognition and measurement of revenue. Therefore, each binding arrangement will have at least one compliance obligation. Revenue is recognised when or as each compliance obligation is satisfied, whether it is internally used or delivered to the resource provider or a third party.

This definition and concept aligns with the concept of a ‘performance obligation’ as contained in IPSASB ED 70 and NZ IFRS 15, but also captures revenue from PBE transactions that require the use of resources internally or the transfer of goods and services to a third-party beneficiary.

F. Key Principles for Revenue Accounting (cont.)

The recognition of revenue for internal use of resources is not new under IPSAS literature and was accounted for under IPSAS 23: *Revenue from Non-Exchange Transactions*. Similarly, revenue recognition for transfers to a third-party was accounted for under IPSAS 9: *Revenue from Exchange Transactions*. However, under IPSAS 47, the delivery of the revenue obligation internally or externally has been combined into one concept of a compliance obligation. It was combined as the accounting and recognition of the revenue doesn't differ whether it is used internally or transferred externally.

The below diagram illustrates the relationship between *compliance obligation* and the previously used terms:



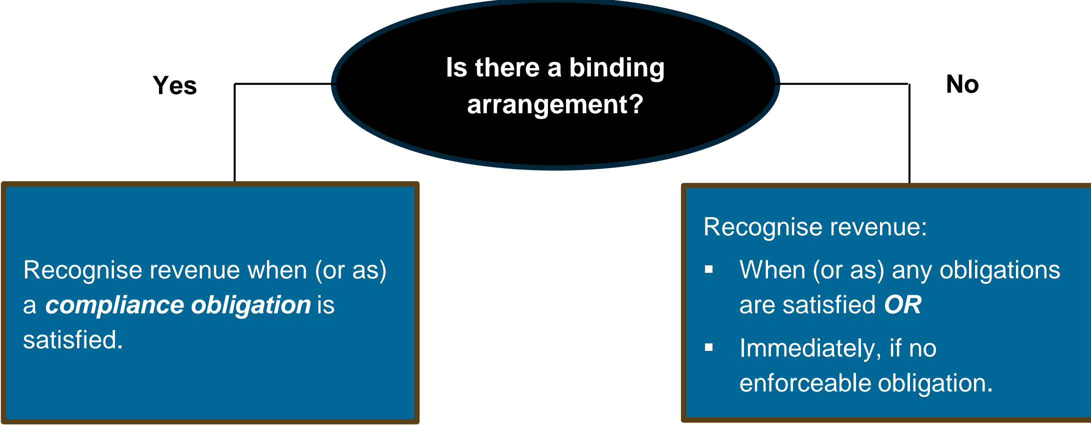
Refer to ED PBE IPSAS 47 paragraphs 68 – 77 and Application Guidance paragraphs AG43 – AG56 for further information on compliance obligations.

Questions

2. Do the binding arrangement, enforceability and compliance obligation principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

G. Revenue recognition

Once a PBE has determined whether or not there is a binding arrangement, the PBE applies one of two models set out in the proposed PBE IPSAS 47:



G. Revenue Recognition (cont.)

Transactions *WITHOUT* binding arrangements

Under this model, a PBE must recognise revenue:

a) when (or as) the PBE satisfies any obligation associated with the inflow of resources that meets the definition of a liability (meaning the PBE, as a result of the inflow, has little or no realistic alternative to avoid an outflow of resources); or

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

Taxes are recognised as revenue from transactions without binding arrangements as the taxpayer does not have an enforceable right to a direct return for the amount paid. A PBE shall recognise an asset and revenue in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

The approach in PBE IPSAS 23, which only allowed for the deferral of revenue recognition for non-exchange transactions when there was a *use or return condition*, has been removed. Instead, the ability to defer revenue recognition is based on the existence of enforceable obligations, which is a much broader principle built around the PBE Conceptual Framework definition of a liability.

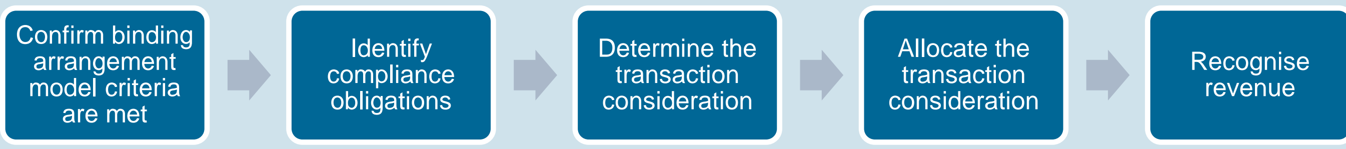
Refer to ED PBE IPSAS 47 paragraphs 17–55 and Implementation Guidance Section C.

Questions

3. Do you agree with the proposed approach to revenue recognition for transactions ***without*** binding arrangements? Are there any specific challenges you foresee in applying this approach?

Transactions *WITH* binding arrangements

The revenue recognition approach for transactions with binding arrangements is based on NZ IFRS 15 — including the five-step model that has been adapted for the public sector.



Under this model, a PBE must recognise revenue as the compliance obligations associated with the inflow of resources are satisfied. A liability (deferred revenue) is recognised at reporting date for any unsatisfied compliance obligations in respect of the inflow of resources received from the revenue transaction.

Refer to ED PBE IPSAS 47 paragraphs 56–161, Application Guidance paragraphs AG32–AG139 and Implementation Guidance Section D.

Questions

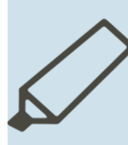
4. Do you agree with the proposed approach to revenue recognition for transactions ***with*** binding arrangements? Are there any specific challenges you foresee in applying this approach?

H. Implementation and specific issues

The proposed PBE IPSAS 47 introduces a comprehensive and robust framework for recognising and measuring revenue. The proposed standard aims to address common challenges faced in the application of previous guidance by providing additional support. This includes extensive application guidance, implementation guidance, and 56 illustrative examples that reflect a range of public sector and NFP specific scenarios. The examples and guidance aim to enhance clarity and facilitate the practical application of the proposed Standard.

Some of the key areas where the proposed standard provides specific guidance include:

- **Capital transfers**: Addressing issues related to revenue recognition for resources intended for capital projects (Application Guidance paragraphs AG141 - AG143 and Implementation Guidance Section A and D3).
- **Multi-year funding arrangements**: Clarifying recognition of revenue where funding spans multiple reporting periods (Implementation Guidance Section E1).
- **Appropriations**: Providing insights on recognising revenue from appropriations (Implementation Guidance Section B.3).
- **Services in-kind**: Offering practical guidance on accounting for services received without a direct exchange of consideration (Application Guidance paragraphs AG144 – AG150 and Implementation Guidance Section G).



Additionally, in developing the proposed PBE IPSAS 47, we have created specific guidance for NFP entities that closely mirrors the NFP guidance in PBE IPSAS 23 Implementation Guidance Appendix B. This guidance, included in the proposed PBE IPSAS 47 Implementation Guidance Appendix G, has been adjusted to align with the principles in the proposed PBE IPSAS 47 and focuses on bequests, cash donations and fundraising, goods and services in-kind, and uncompleted obligations. By aligning with the new Standard, this guidance aims to provide clearer and more consistent revenue recognition practices for NFP entities.

These additions aim to reduce ambiguity and improve consistency across PBEs in how revenue is reported. However, implementation of a new standard often raises questions or challenges, particularly during the transition period.

To ensure a smooth adoption of the proposed PBE IPSAS 47, we are seeking stakeholder feedback on any areas where further clarification or support might be needed.

Question

5. What challenges do you anticipate in implementing PBE IPSAS 47, including any specific transactions or scenarios where additional clarification may be needed? What support or guidance would be most helpful to assist with these challenges?

I. Disclosure and RDR concessions

The proposed PBE IPSAS 47 introduces expanded disclosure requirements that align largely with NZ IFRS 15 and PBE IPSAS 23. These requirements aim to enhance transparency and comparability and to provide useful information to users of financial statements.

Additionally, the ED includes proposed disclosure concessions for Tier 2 PBEs. These disclosure concessions are aligned with those provided to Tier 2 for-profit entities under NZ IFRS 15 and PBE IPSAS 23 and aim to balance the need for transparency with the reporting burden on entities.

I. Disclosure and RDR concessions (cont.)

The ED proposes to provide disclosure *concessions* for Tier 2 entities with respect to the following disclosures:

(a) qualitative and quantitative information about services in-kind, even if not recognised on the face of the financial statements – paragraphs 170 (f) & 175;

(b) revenue recognised from the opening binding arrangement liability balance, revenue from prior periods' compliance obligations, and qualitative and quantitative explanations of material changes in binding arrangement assets and liabilities, including their timing, causes, and impacts – paragraphs 181–183;

(c) the transaction consideration allocated to unsatisfied compliance obligations, explaining when the PBE expects to recognise this revenue using quantitative or qualitative information, and disclosure on whether a practical expedient for short-term arrangements or certain revenue recognition methods is applied – paragraphs 185 - 187;

(d) specific disclosure of significant judgments made in determining the timing of satisfying compliance obligations and determining the transaction consideration and amount allocated to compliance obligations – paragraphs 188 (b) & 190; and

(e) judgments made in determining the costs to obtain or fulfill a binding arrangement with a resource provider and disclosure of the closing balances of such assets, categorised by type – paragraphs 191 (a) & 192 (a). Instead, paragraph RDR192.1 only proposes disclosing the closing balances of assets recognised from the costs incurred to obtain or fulfil a binding arrangement with a resource provider.

Questions

6. Do you consider the disclosure requirements in the proposed PBE IPSAS 47 to be appropriate and proportionate to the needs of users of PBE financial statements?

7. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

J. Mandatory date and other comments

The ED proposes that PBE IPSAS 47 be applied for annual financial statements covering periods beginning on or after 1 January 2029. Application would be permitted for accounting periods that begin before 1 January 2029 but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

We believe that a mandatory date of 1 January 2029 would allow PBEs sufficient time to prepare for the application of the Standard.

With early application permitted, those PBEs that wish to adopt PBE IPSAS 47 early will be able to do so.

Questions

8. Do you agree with the proposed mandatory date of 1 January 2029?

9. Do you have any other comments on the ED?

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Wellington 6011
New Zealand

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Memorandum

Date:	5 February 2025
To:	NZASB Members
From:	Carly Berry
Subject:	**ED PBE IPSAS 48 *Transfer Expenses***

Introduction and purpose

1. The purpose of this memorandum is to seek the Board's approval to issue Exposure Draft (ED) PBE IPSAS 48 *Transfer Expenses* and the accompanying consultation document.

2. Since the December 2024 Board meeting, the draft ED has been updated to include Basis for Conclusions (BCs) for:

   (a) PBE IPSAS 48; and

   (b) PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Liabilities,* relating to the consequential amendments set out in Appendix B of the draft ED.

3. This memo should be read in conjunction with agenda item 4.6, which is a marked-up version of the ED with changes highlighted in blue and accompanied by comment boxes. The draft ED also includes the Board questions in turquoise boxes, positioned below the relevant paragraphs.

4. The draft consultation document (including the proposed questions to constituents) is included under agenda item 4.7. This is the first time the Board will be reviewing the draft consultation document.

5. A summary of outcomes from previous Board meetings that are relevant to the draft ED can be found in Appendix 1.

Recommendations

6. We recommend that the Board:

   (a) AGREES with the drafting of the BCs – discussed in paragraphs 9–11; and

   (b) APPROVES the following, subject to any changes raised by the Board at this meeting being finalised via review by the Chair:

      (i) ED PBE IPSAS 48 *Transfer Expenses* in its entirety – agenda item 4.6; and

      (ii) the accompanying consultation document – agenda item 4.7.

7. We also recommend that the Board NOTES the next steps set out in this memo.

Structure of this memo

8. This memo includes the following sections.

- Basis for Conclusions
- Consultation document
- Next steps
- Appendix 1: Summary of outcomes from previous Board meetings relevant to ED PBE IPSAS 48

Agenda items accompanying this memo:

- 4.6 Draft ED PBE IPSAS 48; and
- 4.7 Draft consultation document

Basis for Conclusions

PBE IPSAS 19 (Appendix B, pages 27–28, of agenda item 4.6)

9. We have drafted paragraphs BC8–BC16 for inclusion in PBE IPSAS 19, to explain the rationale for:

   (a) removing the scope exclusion in paragraph 2.2 and the associated guidance in paragraphs 11.1–11.3; and

   (b) adding paragraphs 34.1 and 34.2.

10. Within the BCs, we have also provided the context to the actions referred to in paragraph 9 above – namely, the Board's decision on the IPSASB's amending standard *Collective and Individual Services* as well as the relationship between PBE IPSAS 19 and PBE IPSAS 48.

Question for the Board
Q1. Does the Board AGREE with on the detail included in paragraphs BC8–BC16?

PBE IPSAS 48 (pages 31–35 of agenda item 4.6)

11. The BCs begins by outlining the IPSASB's background and rationale for developing IPSAS 48, followed by the NZASB's decision to develop a New Zealand-specific PBE Standard using IPSAS 48 as the starting point. It then details the modifications made to ensure the PBE Standard is fit-for-purpose in the New Zealand context. The BCs cover the following key topics:

    (a) Scope modification relating to social benefit transactions – paragraphs BC7–BC20; and

    (b) Appropriations – paragraphs BC21–BC23.

    (c) Other modifications to IPSAS 48 requiring specific explanation in the BCs – paragraphs BC24–BC28

Questions for the Board

Q2. Does the Board AGREE with each of the key topics covered in paragraphs BC7–BC28 and are there any other topics that should be added?

Q3. Does the Board AGREE with the detail included in each of the key topics?

Q4. Does the Board APPROVE the draft ED for issue, subject to any changes raised by the Board at this meeting being finalised via review by the Chair?

Consultation document

12. The draft consultation document that will accompany the ED is attached as agenda item 4.7. This document outlines the purpose of the consultation, includes a cost-benefit analysis, and summarises the key principles and other significant aspects of the proposals in the draft ED.

13. The consultation questions focus on the overarching principles and key practical implications. Specific questions relating to the accounting for social benefit transactions under the draft ED are also included in the consultation document, as this is a key modification that the Board has made to IPSAS 48. Following the NZASB's June 2023 and December 2024 discussions on the cost vs benefit impact, a specific question has been included to reflect the importance of understanding stakeholders' perspectives on this issue.

14. The table below sets out the questions that have been included in the draft consultation document to elicit feedback from respondents:

Topic	Question
Costs vs Benefit analysis (Section D)	1. What are the anticipated costs and benefits of adopting PBE IPSAS 48 for your organisation? Please provide specific examples of both initial and ongoing costs, as well as any expected benefits.
Key principles in transfer expense accounting (Section E)	2. Do the binding arrangement, enforceability and transfer right principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?
Recognition of transfer expense transactions (Section F)	3. Do you agree with the proposed approach to transfer expense recognition for transactions with binding arrangements? Are there any specific challenges you foresee in applying this approach?
	4. Regarding the proposed approach to transfer expense recognition for transactions without binding arrangements: (a) Do you agree with the proposed approach? Are there any specific challenges you foresee in applying this approach? (b) Do you anticipate a change to the accounting for social benefit transactions as a result of applying the proposed approach? If so, how would the accounting change? (c) Do you consider the proposed guidance, added to PBE IPSAS 19, to be sufficient to assist PBEs in determining

Topic	Question
	whether they have a legal or constructive obligation at the reporting date?
Disclosure and RDR concessions (Section G)	5. Regarding the proposed disclosure requirements: (a) Do you agree with our proposals? (b) Do you consider that additional guidance is required in the proposed PBE IPSAS 48, to assist entities with applying the disclosure requirements to social benefit transactions?
	6. Do you agree with the proposed RDR concessions for Tier 2 PBEs?
Implementation and specific issues (Section H)	7. Are there any specific types of transactions or scenarios that you believe require additional guidance or clarification in the proposed PBE IPSAS 48?
	8. What support or guidance would you consider to be helpful for us to provide during the transition period?
Mandatory date and other comments (Section I)	9. Do you agree with the proposed mandatory date of 1 January 2029?
	10. Do you have any other comments on the ED?

15. We plan to seek assistance from our communications team to add illustrative images and further refinement of the consultation document before it is published.

Questions for the Board

Q4. Does the Board AGREE with the content of the proposed ED PBE IPSAS 48 consultation document as contained in agenda item 4.7?

Q5. Does the Board AGREE with the questions included and are there any other questions which should be added?

Q6. Does the Board APPROVE the consultation document for issue, subject to any changes raised by the Board at this meeting being finalised via review by the Chair?

Next steps

Finalisation of ED and consultation document

16. Ahead of issuing the ED and consultation document for public comment, we will update the draft ED and consultation document for:

(a) the Board's feedback at this meeting;

(b) refinement of the consultation document by our communications team; and

(c) final formatting and editing of the draft ED and consultation document.

Appendix 1: Summary of outcomes from previous Board meetings relevant to ED PBE IPSAS 48

Outcomes addressed in this agenda item are highlighted in green.

Meeting	Outcome	Comment / draft ED reference
December 2024	The Board AGREED:	
	• with staff's recommended approach to the disclosure requirements in paragraphs 54 and 60 of the draft ED, and provided RECOMMENDATIONS for explaining this approach in the Basis for Conclusions; and	Paragraphs 54 and 60 Paragraph BC20
	• with staff's recommended amendments to Illustrative Example 1 and Illustrative Example 7, to account for the not-for-profit context.	Illustrative Example 1 and Illustrative Example 7
October 2024	The Board:	
	• AGREED with the inclusion of paragraphs 4.1, 4.2 and AG3.1.	Paragraphs 4.1, 4.2 and AG3.1.
	• AGREED with the inclusion of the words "(and therefore a provision is not recognised in accordance with paragraph 22 of PBE IPSAS 19)" in paragraph 18(b).	Paragraph 18(b)
	• PROVIDED FEEDBACK on the proposed amendments to paragraphs 54 and 60.	Paragraphs 54 and 60
	• AGREED with staff's recommended consequential amendments to PBE IPSAS 19.	ED PBE IPSAS 48 Appendix B (Amendments to PBE IPSAS 19)
	• AGREED with staff's recommended RDR concessions for Tier 2 entities;	Paragraphs 55–58, RDR 55.1–58.1, 59(b), 59(d) and 60(b)
	• AGREED not to include any transitional provisions in addition to those already provided in IPSAS 48;	Paragraph 64
	• PROVIDED FEEDBACK on the drafting of the illustrative examples, asking staff to consider including not-for-profit examples; and	Illustrative Examples 1 and 7
	• AGREED with the other proposed New Zealand modifications to IPSAS 48.	Paragraphs 2.1–2.2, 4, 62 – 63
August 2024	The Board AGREED:	

Meeting	Outcome	Comment / draft ED reference
	• 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.
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:	

Meeting	Outcome	Comment / draft ED reference
	○ 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) ~~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.
	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.

Meeting	Outcome	Comment / draft ED reference
	• 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.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 4.6

Proposed new expense accounting standard

PBE IPSAS 48 *Transfer Expenses*

Exposure Draft

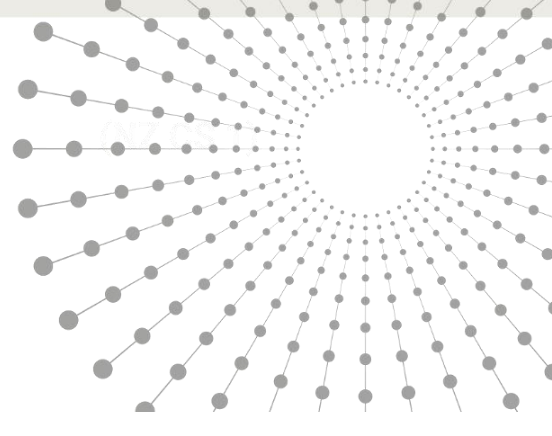
Submissions close [xx]

Note to Board members

Changes made since we presented this draft ED to the Board at the December 2024 meeting are highlighted in **blue**.

Board questions are included in **turquoise** boxes within the body of the draft ED. These questions can also be found within agenda item 4.5.

All highlights and questions will be removed before issuing the ED for public comment.



[June] 2025

NZASB EXPOSURE DRAFT 2025-[xx]

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 2029], 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.

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[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”.

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ISBN

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PBE IPSAS 48 TRANSFER EXPENSES

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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.

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.

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

---

[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.

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;

(c) Taxes; and

(d) Third-party beneficiary.

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

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

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

[4] The asset may be derecognised at a point in time or over a period of time depending on the terms of the arrangement.

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.

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.**

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 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.

[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.

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 immaterial 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 material 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.

*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.

*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.

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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.

Transfer Arrangements

59. An entity shall disclose information about its material 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.

60. An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements that are material, 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.

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 2029.

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.

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.

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.

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.

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.

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. 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.

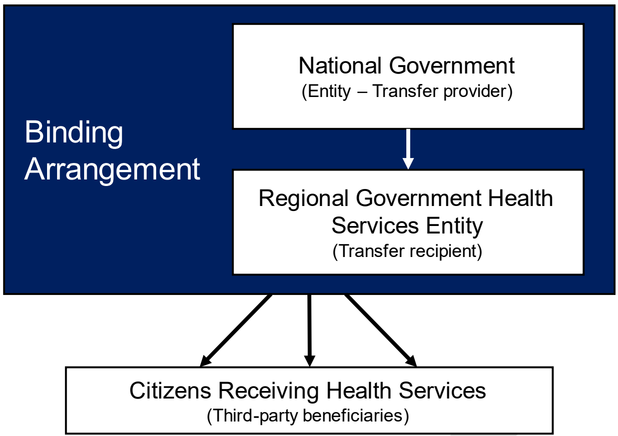
Parties in a Binding Arrangement

AG26. Arrangements in the not-for-profit and public sector may 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.



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.

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

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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.

Appendix B

Amendments to Other PBE Standards

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

…

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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*

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]

…

~~**The Crown**~~

~~11.1 Obligations of the Crown expressed in legislation that have characteristics similar to an executory contract are those where:~~

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~~(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.

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Paragraphs BC8–BC16 and the related heading are added. New text is underlined.

Basis for Conclusions

…

PBE IPSAS 48 *Transfer Expenses*

BC8. In May 2023, the IPSASB issued IPSAS 48 *Transfer Expenses*. In [Date], the NZASB issued PBE IPSAS 48 *Transfer Expenses*.

BC9. As discussed in paragraphs BC2–BC3, the NZASB decided to retain the scope exclusion in paragraph 2.2 in relation to certain obligations of the Crown while IPSASB projects relating to social benefits and the development of a conceptual framework were in progress. The IPSASB has since completed both projects.

(a) *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB Conceptual Framework) was issued in October 2014.

(b) IPSAS 42 *Social Benefits* was issued in January 2019.

BC10. In addition to the abovementioned projects, in January 2020, the IPSASB issued *Collective and Individual Services (Amendments to IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets)*. This amending standard complements IPSAS 42 and adds application guidance paragraphs to IPSAS 19 which:

(a) define collective and individual services[6] and explain how they differ from social benefits; and

(b) specify that no provision is to be recognised for a government's intention to provide collective services or individual services. The rationale for this accounting treatment is that these services are ongoing activities of a government, and no provision is recognised for ongoing activities.

BC11. BC11. The NZASB issued the *Public Benefit Entities' Conceptual Framework,* based on the IPSASB Conceptual Framework, in May 2016. However, the NZASB decided not to develop a PBE Standard using IPSAS 42 as a starting point, nor to develop a domestic standard on the topic of social benefits[7]. Instead, social benefit transactions are included within the scope of PBE IPSAS 48. Likewise, the NZASB decided not to develop amendments to PBE IPSAS 19 using *Collective and Individual Services* as a starting point, as such a development would likely not lead to significant improvements in the quality of financial reporting by public benefit entities and the costs of implementation would likely outweigh the benefits.

BC12. In light of the decisions noted in paragraph BC11 above, as well as the development of PBE IPSAS 48, the NZASB reviewed the continuing relevance of the existing scope exclusion relating to certain obligations of the Crown as well as the associated guidance in paragraphs 11.1–11.3. The NZASB decided that it would be redundant to retain this scope exclusion and associated guidance because the scope of PBE IPSAS 48 includes social welfare payments and services provided by the central and local governments, when these transactions meet the definition of a transfer expense. Consequently, the NZASB deleted paragraphs 2.2 and 11.1–11.3.

BC13. The Board considered whether authoritative guidance should be added to PBE IPSAS 19, to replace the abovementioned deleted paragraphs. The Board decided that it would be useful to add authoritative guidance to PBE IPSAS 19 to address the relevant principles that apply to the transactions contemplated in the scope exclusion because:

(a) the abovementioned transactions, when in scope of PBE IPSAS 48, are accounted for as transactions without binding arrangements. This is because individuals and communities do not have an enforceable obligation to central and local governments in return for the resources.

(b) for transactions without binding arrangements, PBE IPSAS 48 requires entities to consider whether there is a legal or constructive obligation which gives rise to a provision under PBE IPSAS 19. In the absence of the existing scope exclusion (and the associated guidance in paragraphs 11.1–11.3), there is no specific application guidance that would apply to these transactions. Developing such

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[6] Collective services are those provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole. Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

[7] See paragraphs BC8–BC20 in PBE IPSAS 48 for the basis for conclusions for these decisions.

authoritative guidance for inclusion in PBE IPSAS 48 may be useful to entities in making judgements on whether or not a legal or constructive obligation exists.

BC14. In developing the authoritative guidance referred to in paragraph BC13 above, the NZASB considered the following.

(a) The principle in paragraph 25 in PBE IPSAS 19 – that is, … *for an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only (a) where settlement of the obligation can be enforced by law; or (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.*

(b) The authoritative guidance in paragraphs Aus26.1–Aus26.2 in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. This guidance addresses the recognition of liabilities arising from local government or government existing public policies, budget policies, election promises or statements of intent and explicitly states that such 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.*

BC15. The NZASB decided to follow a similar approach to the AASB, because:

(a) paragraphs Aus26.1–Aus26.2 contain authoritative guidance drawing on the principles of AASB 137; and

(b) these principles are substantively aligned with those in PBE IPSAS 19, in particular, with the principle noted in paragraph BC14(a).

BC16. Consequently, the NZASB added paragraphs 34.1–34.2. These paragraphs were developed using paragraphs Aus26.1–Aus26.2 as a starting point, with modifications to suit the New Zealand context and to align with the specific wording used in paragraph 25 in PBE IPSAS 19.

The footnote to paragraph BC2 is deleted.

* ~~The IPSASB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in October 2014, and the NZASB issued the *Public Benefit Entities' Conceptual Framework* in May 2016.~~

Question to Board members

Refer to paragraphs 9–10 in agenda item 4.5.

Q1. Does the Board AGREE with the detail included in paragraphs BC8–BC16?

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

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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)

(…)

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 48.

Background: IPSAS 48 *Transfer Expenses*

BC1. In May 2023, the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 48 *Transfer Expenses*. IPSAS 48 sets out the accounting requirements for a major area of expenditure for governments and other public sector entities. Prior to IPSAS 48, there was no explicit guidance on how to account for transfer expenses in the IPSASB's literature. This lack of guidance led to ambiguity and potential inconsistencies in the accounting for transfer expenses, as constituents needed to develop their own accounting policy for these transactions.

BC2. Under IPSAS 48, the transfer provider's accounting for transfer expenses is driven by whether the transaction results in an enforceable right to have the transfer recipient satisfy their obligations. Such an enforceable right is recognised as an asset and subsequently expensed as the enforceable right is extinguished.

BC3. The identification of whether the transaction arises from a binding arrangement impacts the determination of whether the transaction results in the recognition of an asset, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria. IPSAS 48 introduces two accounting models: one for transfer expenses with binding arrangements and one for transfer expenses without binding arrangements. IPSAS 48 includes comprehensive guidance for an entity to determine whether their transaction arises from a binding arrangement and, consequently, which accounting model in the Standard to apply.

NZASB decision to develop PBE IPSAS 48 *Transfer Expenses*

BC4. Following the issue of IPSAS 48, the New Zealand Accounting Standards Board (NZASB) decided to develop a PBE Standard using IPSAS 48 as a starting point. The NZASB noted that developing such a PBE Standard would be in accordance with New Zealand's Accounting Standards Framework. The NZASB also noted the following:

(a) The IPSASB's reasons for developing IPSAS 48, as described in paragraph BC1 above, also justify the introduction of these requirements into PBE Standards.

(b) The concept of a 'binding arrangement' is prevalent throughout IPSAS literature, most notably in IPSAS 47 *Revenue*[1]. As PBE Standards are primarily based on IPSAS, developing a PBE Standard using IPSAS 48 as a starting point would enhance the coherence of the suite of PBE Standards, whereas not doing so would negatively impact on coherence.

(c) The accounting for transfer expenses is a topic which primarily concerns public benefit entities and there is no specific for-profit accounting standard for this topic. Developing a PBE Standard using IPSAS 48 as the starting point is, therefore, likely to have a neutral impact on mixed groups.

(d) The expected costs to be incurred by constituents include those predominately occurring upon transition to PBE IPSAS 48 (such as the investment of time and resources into understanding the new accounting requirements) as well as those that are expected to occur on an ongoing basis (such as the need to apply significant judgement in the application of the principles to each new binding arrangement, or when a binding arrangement is modified). The NZASB considers that the benefits of developing a PBE Standard using IPSAS 48 as the starting point, as described in paragraph BC4(a)–(b) are expected to exceed these costs.

BC5. In developing PBE IPSAS 47 *Revenue* and PBE IPSAS 48, the NZASB received feedback from a PBE Working Group, consisting of individuals with a practical accounting background in public sector and not-for-profit reporting. The objective of this group was for members to share their practical insights and expertise in the public and not-for-profit sectors to assist the NZASB with the development of PBE IPSAS 48 and PBE IPSAS 47. Through discussions with the PBE Working Group and other work performed to understand the New Zealand jurisdictional framework and legal context, the NZASB

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[1] A PBE Standard developed using IPSAS 47 as a starting point has been exposed for comment at the same time as ED PBE IPSAS 48.

concluded that the fundamental accounting principles in IPSAS 48 were generally appropriate for application by both public sector and not-for-profit public benefit entities in New Zealand.

BC6. Following its review of the fundamental accounting principles in IPSAS 48, the NZASB considered the nature and extent of modifications to be made to IPSAS 48 to ensure that PBE IPSAS 48 is fit-for-purpose in New Zealand. The NZASB consulted the PBE Working Group on existing issues with the accounting for revenue and transfer expenses in practice, as well as potential implementation issues relating to the requirements in IPSAS 48. The NZASB also considered comments from New Zealand constituents on the IPSASB ED 72 *Transfer Expenses* (which was issued for public consultation in 2020) as well as the adoption status of other IPSASs in New Zealand (such as IPSAS 42 *Social Benefits*). Some of the resulting modifications to IPSAS 48 are relatively minor, to ensure coherence within the suite of PBE Standards (e.g., aligning terminology with other PBE Standards) as well as to ensure the not-for-profit context is acknowledged within PBE IPSAS 48. Additionally, disclosure concessions for Tier 2 public benefit entities have been included. The more substantive modifications considered or made by the NZASB in developing PBE IPSAS 48 are outlined in paragraphs BC7–BC28.

Scope modification: social welfare payments to individuals and the delivery of services to individuals and communities by central and local governments

BC7. The NZASB did not retain the scope exclusion in IPSAS 48 relating to social benefits as defined in IPSAS 42 *Social Benefits*. Consequently, social benefit transactions are within the scope of PBE IPSAS 48 if they meet the definition of a transfer expense. This decision is explained further in paragraphs BC8–BC20 below.

The NZASB's decision on IPSAS 42

BC8. IPSAS 42 defines social benefits[2] and includes requirements for the recognition and measurement of social benefit transactions. IPSAS 42 also includes disclosure requirements that will provide additional information that users may need to evaluate the effect that social benefits have on a government's finances.

BC9. At the time IPSAS 42 was issued in January 2019, the IPSASB had not yet completed other related projects dealing with non-exchange expenses – specifically, its projects on Transfer Expenses and Collective and Individual Services. Therefore, when IPSAS 42 was issued, the NZASB decided to defer its decision on whether to develop a PBE Standard using IPSAS 42 as a starting point, until those other projects were completed. Similarly, when the IPSASB issued the amending standard *Collective and Individual Services (Amendments to IPSAS 19)* in January 2020, the NZASB also decided to defer its decision on whether to develop equivalent amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* until the project on Transfer Expenses was completed[3].

BC10. Once IPSAS 48 was issued in May 2023, the NZASB revisited the decision on whether or not to develop a PBE Standard using IPSAS 42 as a starting point. The NZASB decided not to do so, as such a development would likely not lead to significant improvements in the quality of financial reporting by public benefit entities.

BC11. In line with its established due process, upon deciding not to develop a PBE Standard using IPSAS 42 as a starting point, the NZASB was required to consider what, if any, action(s) it planned to take in relation to the IPSAS – specifically, whether a domestic standard would be developed and whether parts of the IPSAS would be incorporated into that domestic standard. The NZASB decided that the costs to implement such a domestic standard would outweigh the benefits of doing so. In making this decision, the NZASB took the following into account.

(a) The absence of a specific PBE Standard for social benefits has not resulted in significant diversity in accounting practice.

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[2] Social benefits are cash transfers provided to: (a) specific individuals and/or households who meet eligibility criteria; (b) mitigate the effect of social risks; and (c) address the needs of society as a whole.

Social risks are events or circumstances that: (a) relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and (b) may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

[3] Refer to the Basis for Conclusions in PBE IPSAS 19 for further discussion on *Collective and Individual Services (Amendments to IPSAS 19).*

(b) No concerns with the existing reporting of social benefits in New Zealand have come to the NZASB's attention.

Decision to include social benefit transactions within the scope of PBE IPSAS 48

BC12. Currently, in the absence of a specific PBE Standard for social welfare payments and services provided by central and local governments (hereafter referred to as 'social benefit transactions'), public sector entities entering into such transactions followed the requirements of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing an appropriate accounting policy. In developing such a policy, entities were required to consider first the applicability of the requirements in PBE Standards dealing with similar and related issues. Currently, PBE IPSAS 19 is the PBE Standard which deals with 'similar and related issues' to social benefit transactions. However, the development of PBE IPSAS 48 required the NZASB to consider whether this Standard:

(a) is more appropriate to be used as a basis for an accounting policy for social benefit transactions; or

(b) in the absence of a specific scope exclusion, would be directly applicable to social benefit transactions.

BC13. The NZASB considered how the requirements in PBE IPSAS 48 would apply to social benefit transactions and concluded that:

(a) Social benefit transactions would typically meet the definition of a transfer expense.

(b) Such transactions would be without binding arrangements because individuals and communities do not have an enforceable obligation to central or local governments to deliver cash, goods or services in return for the resources received.

(c) For transfer expenses without binding arrangements, an entity must consider whether there is a legal or constructive obligation to transfer resources which results in the recognition of a provision in accordance with paragraph 22 of PBE IPSAS 19. Such a provision would be initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.

BC14. The NZASB considers that current accounting practice in New Zealand with respect to social benefit transactions is unlikely to change significantly as a result of applying the requirements of PBE IPSAS 48. This is an appropriate outcome, for the reasons noted in paragraph BC11(a)–(b). Therefore, the NZASB decided not to include a scope exclusion similar to the one in IPSAS 48 (as noted in paragraph BC7).

Addition of explanatory paragraphs

BC15. To emphasise the application of PBE IPSAS 48 to social benefit transactions – and how the fundamental principle of a 'binding arrangement' applies to these transactions – the NZASB added paragraphs 4.1–4.2. These paragraphs clarify that such transactions are included within the scope of the Standard when they meet the definition of a transfer expense and are accounted for as transactions without binding arrangements.

BC16. Paragraphs 4.1–4.2 reference the delivery of services to individuals and communities by central and local governments, since such transactions would likely be within the 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 contracts and other binding arrangements would be accounted for in accordance with other PBE Standards. To clarify this, the NZASB added paragraph AG3.1.

Consideration of the disclosure requirements in IPSAS 48 (as they would apply to social benefit transactions)

BC17. IPSAS 48 was not developed with social benefit transactions in mind. Therefore, the NZASB considered whether the presentation and disclosure requirements in IPSAS 48 are appropriate in the context of social benefit transactions in New Zealand. As noted in paragraph BC11, the NZASB is not aware of any concerns with the existing reporting of these transactions (which includes presentation and disclosure).

BC18. The NZASB noted that information on social benefit transactions (in particular, social welfare payments) is only presented and disclosed in the New Zealand Government (i.e., Crown) annual financial statements. The NZASB considered the disclosure requirements in IPSAS 48 that would apply to social benefit transactions and concluded that most of those requirements are either:

(a) consistent with presentation and disclosure requirements in other PBE Standards; or

(b) aligned with the information presented or disclosed in the Crown annual financial statements in accordance with NZ Treasury's accounting policies.

BC19. The NZASB identified two disclosure requirements which would require additional information on social benefit transactions to be disclosed in the Crown annual 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.

BC20. The NZASB noted that including this additional information on social benefit transactions in the Crown annual financial statements may add significant length to the financial statements for potentially little benefit, since users may already have access to much of this information through other sources (such as the Ministry of Social Development's website). Therefore, the NZASB considered the following options.

(a) *Exempt preparers from making these disclosures with respect to social benefit transactions*. This would effectively be a Crown-specific scope exclusion, as it is only in the Crown annual financial statements that information about social benefit transactions can be found. For this reason, the NZASB did not consider this to be an appropriate course of action to take.

(b) *Permit 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.* This option would be helpful to those users who have never engaged with the information available in those other sources, while limiting the additional information to be included in the financial statements. However, the NZASB considers it important that the financial statements be complete – that is, they should include all material information, rather than incorporate this information through cross-referencing.

(c) *Emphasise the application of materiality to the judgements on the nature and extent of the disclosures required under PBE IPSAS 48*. The NZASB considered this to be the most appropriate course of action to take to limit the disclosure of information in excess of what users require. The NZASB noted that paragraphs 51–52 in IPSAS 48 refer entities to the requirements in IPSAS 1 *Presentation of Financial Statements* which provide guidance on materiality and aggregation. IPSAS 1 is equivalent to PBE IPSAS 1 *Presentation of Financial Reports* in this regard. The NZASB decided not to incorporate those requirements in PBE IPSAS 1 into PBE IPSAS 48, because paragraphs 51–52 already contain some of the key points from that Standard that entities should consider in making their materiality judgements. However, to further emphasise the need to apply materiality judgements to the nature and extent of disclosures required under PBE IPSAS 48, the NZASB decided to:

(i) add the word 'material' to paragraphs 59 and 60; and

(ii) replace the word 'significant' with the word 'material' in paragraphs 52 and 54. 'Material' is a defined term in PBE Standards, whereas 'significant' is not defined in any PBE Standard. Similarly, the NZASB decided to replace the word 'insignificant' with the word 'immaterial' in paragraph 52. In contrast, the NZASB did not replace references to 'significant payment terms' and 'significant judgements' where they appear in PBE IPSAS 48. Such terms appear in other PBE Standards, as well as in the for-profit suite of standards and the NZASB does not wish to imply that the meaning of these terms in PBE IPSAS 48 differs from the meaning in those other Standards.

Appropriations

BC21. The NZASB discussed the requirements relating to appropriations in IPSAS 48 (contained in the Implementation Guidance Section B.3. as demonstrated in Illustrative Example 4). It was noted in Implementation Guidance Section B.3 that appropriations are 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 similar authority. IPSAS 24 does not form part of PBE Standards.

BC22. The NZASB decided to:

(a) remove the reference to the appropriations definition in IPSAS 24 from PBE IPSAS 48 Implementation Guidance Section B.3.

(b) align the description of appropriations with the New Zealand legislative framework by rewording the description 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 struck-through words and adding the underlined words.

BC23. Additionally, the NZASB noted that 'appropriation' not defined in PBE Standards but that the interpretation of the term should be consistent with its assigned meaning under New Zealand legislation, specifically per the Public Finance Act 1989.

Other modifications to IPSAS 48

BC24. The NZASB made the following additional modifications to IPSAS 48:

Definition of a binding arrangement

BC25. IPSAS 48 does not include a definition for 'binding arrangement'. Instead, IPSAS 48 refers entities to IPSAS 47 for this definition. The NZASB decided to include the definition in PBE IPSAS 48, due to the importance of the binding arrangement principle in the accounting for transfer expenses and to minimise the need for entities to refer to other PBE Standards to understand the requirements in PBE IPSAS 48.

Application of the onerous contract accounting requirements to transfer expense transactions

BC26. The definition of an 'onerous contract' explicitly refers to the exchange of assets or services. The IPSASB considered whether IPSAS 48 should explicitly state that onerous contracts are not applicable to transfer expenses. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that a transfer expense could not meet the definition of an 'onerous contract'. Therefore, the IPSASB decided not to add an explicit scope exclusion to IPSAS 48.

BC27. In feedback to the IPSASB on ED 72, the NZASB and one New Zealand constituent questioned what the transfer provider would do if the binding arrangement became onerous. In light of this feedback, the NZASB decided that the implicit scope exclusion could be made clearer for New Zealand stakeholders and therefore added paragraph AG3.2.

Amendment to paragraph 18 – concerning the recognition of transfer expenses from transactions without binding arrangements

BC28. The NZASB noted that paragraph 18(b) could be more explicit in stating that if no provision is recognised, then an expense is recognised when the entity ceases to control the resources. Therefore, NZASB modified paragraph 18(b) as follows (additional wording underlined) – *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; …*

Questions to Board members

Refer to paragraph 11 in agenda item 4.5.

Q2. Does the Board AGREE with each of the key topics covered in paragraphs BC7–BC28 and are there any other topics that should be added?

Q3. Does the Board AGREE with the detail included in each of the key topics covered in the Basis for Conclusions?

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

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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

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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 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 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.

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Illustrative Examples

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. A not-for-profit entity (the NFP) enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.[11] 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 NFP

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

IE5. The binding arrangement does not give rise to a transfer expense of the NFP, as the NFP 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 NFP 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 Community Group

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

IE7. The binding arrangement gives rise to a transfer expense of the NFP, as the NFP 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 third-party beneficiary.) The NFP (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.

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.

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[11] In these examples, monetary amounts are denominated in 'currency units' (CU).

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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.

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

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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);

(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.

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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 not-for-profit entity (the NFP) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide health and safety booklets to public primary schools in the city (Schools, the third-party beneficiaries) as part of the Schools' health and safety courses for Years 1–3. The binding arrangement specifies that the NFP will pay the Publisher CU15 per booklet, and the number of booklets to be provided will be based on enrolment numbers for Years 1–3, which will be finalised a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the NFP 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 booklets to the Schools at least two weeks before the start of the school year, and the NFP will pay the remaining consideration for the booklets 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 booklets were shipped to the Schools. To account for this binding arrangement, the NFP 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.

(b) A month before the school year begins, the NFP provides the enrolment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the NFP recognises a transfer right asset of CU29,700 (CU15 × 19,800 books × 10%):

Transfer right asset	CU29,700	
Cash		CU29,700

(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the booklets to the Schools, and the NFP's right to have the booklets delivered has been extinguished. The NFP derecognises the transfer right asset of CU29,700 and records the amount as a transfer expense. In addition, the NFP also recognises a transfer obligation liability and a transfer expense for the unpaid consideration of CU267,300 (CU15 × 19,800 books – CU29,700 deposit) based on the terms of the binding arrangement:[12]

Transfer expense	CU267,300	
Transfer right asset		CU29,700
Transfer obligation liability		CU237,600

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 company that operates a number of private clinics in a region (the Company). Under the terms of the binding arrangement, the Ministry will provide an upfront payment of CU1 million to the Company for the Company 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 Company 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 Company stops administrating the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Company is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Company has spent the funds on acquiring the vaccinations. (e.g., if the Company 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 Company 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 Company 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 Company's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Company purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Company observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Company 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 Company 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.

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 Company 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 Company informed the Ministry of the

[12] It should be noted that PBE IPSAS 48 does not prohibit a public benefit entity from using alternative descriptions in its financial statements for the terms 'transfer right asset', 'transfer obligation liability', or 'transfer expense'.

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 Company 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 Company'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.

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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.

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.

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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.

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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 policies, 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.

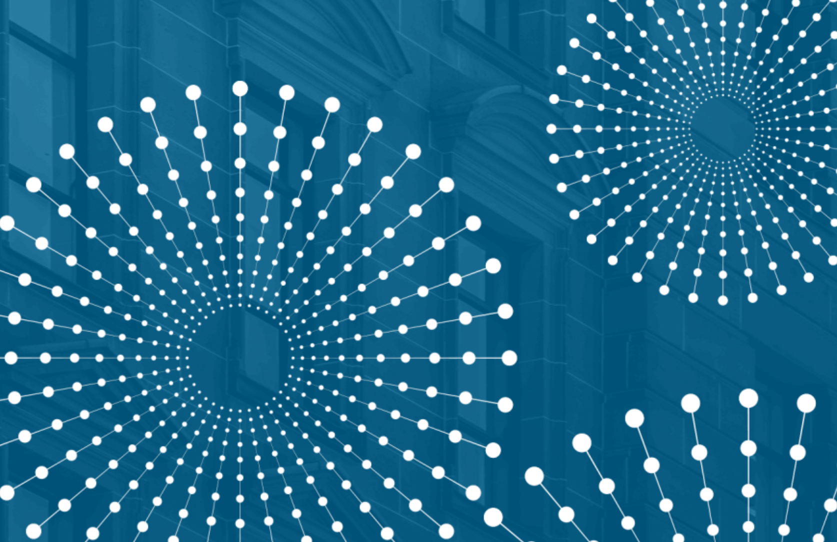
(d) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

Proposed new expense accounting standard

Tier 1 & 2 Public Benefit Entities

PBE IPSAS 48 *Transfer Expenses*

Consultation document



June 2025

Comment period closes 3 December 2025

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PART ONE: Introduction

A. What is this consultation about?

For many public benefit entities, the making of grants and the delivery of services and social welfare payments to the public account for a significant portion of their expenditure.

This consultation proposes to introduce a new Public Benefit Entity ('PBE') Standard for transfer expenses, based on the International Public Sector Accounting Standards Board (IPSASB) standard IPSAS 48 *Transfer Expenses*, with a proposed mandatory date of 1 January 2029. There is currently no PBE Standard addressing these types of transactions; therefore, the proposed standard aims to fill this gap in PBE Standards to enhance consistency and clarity in the accounting for transfer expenses.

What is a transfer expense?

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, without directly receiving any good, service, or other asset in return.

Examples of expenses that could meet this definition include grants and donations in cash or other assets, as well as social welfare payments.

Background

In May 2023, the IPSASB issued IPSAS 48 *Transfer Expenses*. Prior to this, there had been little guidance in the IPSASB's literature on how to account for these expenditures. IPSAS 48 sets out the accounting requirements for transfer expenses and fills a significant gap in the IPSASB's literature.

IPSAS 48 sets out two accounting models, one for transactions with binding arrangements and another for transactions without binding arrangements. IPSAS 48 also contains comprehensive guidance for an entity to determine whether their transaction arises from a binding arrangement, and consequently, which accounting model to apply.

In New Zealand, PBE Standards for Tier 1 and Tier 2 PBEs are primarily based on IPSAS. When proposing to issue a new PBE Standard based on an IPSAS, the New Zealand Accounting Standards Board (NZASB) considers and seeks feedback on the need for New Zealand-specific amendments and/or guidance.

The accompanying Exposure Draft (ED) PBE IPSAS 48 *Transfer Expenses* is a draft of the proposed PBE Standard, which would be applicable to all Tier 1 and Tier 2 PBEs across the public sector and not-for-profit entities.

Maintaining coherence within PBE Standards

Certain key principles in the proposed PBE IPSAS 48 align closely with ED PBE IPSAS 47 *Revenue*, which is the proposed new standard replacing existing PBE Standards on revenue. Together, these proposed standards ensure consistent recognition principles for both revenue and transfer expenses for PBEs. However, while the proposed PBE IPSAS 47 applies to all revenue transactions, the proposed PBE IPSAS 48 only applies to a certain type of expense (i.e., a transfer expense).

Additionally, the proposed standard reflects the updated PBE Conceptual Framework, particularly with respect to equally unperformed binding arrangements.

A note on IPSASB ED 72 *Transfer Expenses*

In 2020, we consulted in New Zealand on the IPSASB's ED on transfer expense, which was released together with the IPSASB's EDs on revenue. ED 72 proposed the classification of transfer expenses based on whether the transfer recipient has at least one performance obligation. Concerns were raised, both internationally and from New Zealand stakeholders, on this key proposal.

When finalising IPSAS 48, the IPSASB ultimately decided to change focus to the transfer provider's perspective and to use binding arrangements as a fundamental concept for transfer expense accounting.

B. How to provide feedback

Responding to consultation questions

We are seeking comments on the questions raised in this Consultation Document. We will consider all comments received before finalising the proposals for PBE IPSAS 48 *Transfer Expenses*.

Please feel free to comment on any or all of the questions or any part of the proposed Standard. We also welcome any feedback on any areas of the proposed Standard not covered by the questions.

Making a submission

You can provide feedback to us via:

- the consultation page on our website (where you can upload your comments); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

Please include 'PBE IPSAS 48 *Transfer Expenses*' in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

For further engagement, we invite you to join our consultation drop-in sessions. Please visit our website for further details.

The closing date for submissions is 3 December 2025.

Projected Timeline

June 2025

ED PBE IPSAS 48 *Transfer Expenses* issued for public consultation

3 December 2025

Submissions due to the NZASB

Q3 2026

PBE IPSAS 48 *Transfer Expenses* issued as final standard

1 January 2029

PBE IPSAS 48 *Transfer Expenses* mandatory for periods beginning on or after this date

Publication of submissions, the Official Information Act and the Privacy Act

We intend to publish all submissions on the XRB website unless they may be defamatory. However, all submissions remain subject to the Official Information Act 1982 and may be released in part or in full. The Privacy Act 2020 also applies.

If you wish to request that your submission, or specific parts of it, be withheld from publication or disclosure, please identify the relevant sections and provide the grounds for withholding under the Official Information Act 1982 (e.g., that disclosure would likely unfairly prejudice the commercial position of the person providing the information).

PART TWO: Questions for respondents

C. Questions for respondents

The questions for respondents focus on the costs and benefits of implementing the proposed Standard as well as the specific proposals within ED PBE IPSAS 48 (as discussed in Part 4 of this Consultation Document).

Benefits and cost consideration (Section D)

1. What are the anticipated costs and benefits of adopting PBE IPSAS 48 for your organisation? Please provide specific examples of both initial and ongoing costs, as well as any expected benefits.

Key principles in transfer expense accounting (Section E)

2. Do the binding arrangement, enforceability and transfer right principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

Recognition of transfer expense transactions (Section F)

3. Do you agree with the proposed approach to transfer expense recognition for transactions with binding arrangements? Are there any specific challenges you foresee in applying this approach?
4. Regarding the proposed approach to transfer expense recognition for transactions without binding arrangements:
   (a) Do you agree with the proposed approach? Are there any specific challenges you foresee in applying this approach?
   (b) Do you anticipate a change to the accounting for social benefit transactions as a result of applying the proposed approach? If so, how would the accounting change?
   (c) Do you consider the proposed guidance, added to PBE IPSAS 19, to be sufficient to assist PBEs in determining whether they have a legal or constructive obligation at the reporting date?

Disclosure and RDR concessions (Section G)

5. Regarding the proposed disclosure requirements:
   (a) Do you agree with our proposals?
   (b) Do you consider that additional guidance is required in the proposed PBE IPSAS 48, to assist entities with applying the disclosure requirements to social benefit transactions?
6. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

Implementation and specific issues (Section H)

7. Are there any specific types of transactions or scenarios that you believe require additional guidance or clarification in the proposed PBE IPSAS 48?
8. What support or guidance would you consider to be helpful for us to provide during the transition period?

Mandatory date and other comments (Section I)

9. Do you agree with the proposed mandatory date of 1 January 2029?
10. Do you have any other comments on the ED?

PART THREE: Benefits and cost consideration

D. Benefit vs cost consideration

In this Part, we aim to provide an analysis of the anticipated costs and benefits associated with the implementation of the proposed PBE IPSAS 48. Understanding the financial and operational implications is crucial for us to make informed decisions when developing new accounting standards. Your feedback will be invaluable in ensuring that the proposed standard is both practical and beneficial for all parties involved.

Benefits of the proposals

The proposed PBE IPSAS 48 is expected to result in the following benefits:

Fills the current gap in PBE Standards: As noted in section A, there is currently no PBE Standard addressing the accounting for transfer expenses. This has led to diversity in practice across the public sector and not-for-profit sector. The proposed new standard will allow for increased consistency in the reporting of transfer expenses, using the latest international thinking.

Guidance on challenging accounting issues: The proposed PBE IPSAS 48 contains guidance on how to apply the proposals to certain challenging issues currently experienced by PBEs – such as the impact of appropriations on the accounting for expenditure as well as the accounting for multi-year arrangements.

Consistency across the PBE sectors: The proposed PBE IPSAS 48 is applicable to both public sector and not-for-profit entities. Therefore, the proposed standard establishes a consistent framework for transfer expense recognition for all PBEs.

Coherence: As noted in section A, the core principles of the proposed PBE IPSAS 48 are consistent with those of the proposed PBE IPSAS 47.

Costs of the proposals

The adoption of the proposed PBE IPSAS 48 is anticipated to incur the following costs:

Time and resource investment: Stakeholders, including preparers and auditors, will need to invest time and resources into understanding, and training staff on, the new principles and guidance in the proposed PBE IPSAS 48. While the majority of these costs are anticipated to be one-off expenses during the transition, there may be ongoing costs for occasional training of new staff.

Judgement and ongoing application costs: Implementing the proposed PBE IPSAS 48 is expected to require significant judgement in its application. PBEs may incur ongoing costs when entering into new arrangements or modifying existing ones, as these will require reassessment under the proposed standard. While many of these costs are anticipated to be concentrated during the initial transition, ongoing expenses will likely persist as PBEs continually assess and apply the proposed standard to new or revised arrangements.

In conclusion: Adopting the proposed PBE IPSAS 48 in New Zealand is expected to enhance the quality and consistency of reporting on transfer expenses within the NFP and public sectors. While the initial adoption may require effort and investment, the long-term benefits are expected to outweigh the costs.

Question

1. What are the anticipated costs and benefits of adopting the proposed PBE IPSAS 48 for your organisation? Please provide specific examples of both initial and ongoing costs, as well as any expected benefits.

Invitation for field testing of PBE IPSAS 48

To ensure the proposed PBE IPSAS 48 meets the practical needs of PBEs in New Zealand, we invite preparers to participate in field testing the proposed standard. Field testing will help identify potential challenges, provide insights into implementation, and assess the cost vs benefit impact of adopting the proposed PBE IPSAS 48.

If you are interested in participating or would like further details, please contact us at accounting@xrb.govt.nz

PART FOUR: Overview of Proposals

E. Overview of proposals

Summary

In Part 4, we highlight the key aspects of the proposals and those areas where we are particularly interested in your feedback. Part 4 is organised as follows.

F. Key principles in transfer expense accounting

G. Recognition of transfer expense transactions

H. Disclosure and RDR concessions

I. Implementation and specific issues

J. Mandatory date and other comments.

Approach to developing PBE IPSAS 48

The proposed PBE IPSAS 48 is closely based on IPSAS 48. In accordance with its usual approach to developing a PBE Standard based on an IPSAS, the New Zealand Accounting Standards Board has:

aligned terminology with that used in PBE Standards (for example, PBE Standards include the concept of other comprehensive revenue and expense);

ensured coherence within PBE Standards by considering the existence of New Zealand-specific standards or requirements;

considered the need for any modifications to the IPSAS, to make the proposed standard more appropriate for PBEs in New Zealand, such as with respect to scope; and

identified reduced disclosure requirements (RDR) for Tier 2 PBEs, with respect to disclosure requirements in the proposed standard.

A significant modification to IPSAS 48 is the inclusion of social benefit transactions within the scope of the proposed PBE IPSAS 48. Refer to Basis for Conclusions paragraphs BC12–BC14 in the ED for information on the reasons for this modification. Sections F and G of this document highlight the applicability of the proposals to these types of transactions.

Terminology used in the proposed standard

In addition to the term ‘transfer expense’, the proposed PBE IPSAS 48 introduces several new terms into PBE Standards, which are discussed further throughout this document. Some of these new terms, noted in the table below, are similar, but not identical, to those used in the proposed PBE IPSAS 47 *Revenue*.

Transfer provider ***(the reporting entity)***	**An entity that provides a good, service or other asset to another entity without directly receiving any good, service or other asset in return.** The proposed PBE IPSAS 47 uses the term *resource provider* because the scope of the proposed new standard for revenue is broader and encompasses revenue from transfers as well as other transactions.
Transfer recipient	**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.** The proposed PBE IPSAS 47 uses the term *resource recipient*, for reasons similar to those noted above.

F. Key principles in transfer expense accounting

The binding arrangement concept

Under the proposed PBE IPSAS 48, the accounting for a transfer expense transaction is driven by whether the transfer provider has an **enforceable right** to have the transfer recipient satisfy its obligations. Such an enforceable right is recognised as an **asset** and subsequently expensed as the enforceable right is extinguished. Effectively this results in a delay in expense recognition.

For a transfer right to exist, there must be a **binding arrangement**. This is because the rights and obligations in a binding arrangement, and its enforceability, provide the necessary basis for asset recognition.

Determining whether a binding arrangement exists is therefore a key judgement for PBEs to make, as it affects how the transaction is recognised, measured, presented and disclosed in the financial statements. As such, it is the first step in accounting for the transaction.

The ED describes this right as a 'transfer right'. The asset recognised for the existence of one or more transfer rights is described as a 'transfer right asset'.

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.

Enforceability in a binding arrangement

The definition of a binding arrangement is underpinned by the principle of enforceability.

In the public sector, an arrangement is enforceable when at least two of the parties are able to enforce their respective rights and obligations through various mechanisms. An arrangement is enforceable if it includes:

- clearly specified rights and obligations for at least two of the parties to the arrangement; and
- remedies for non-completion by each of these parties which can be enforced through the identified enforcement mechanisms.

Refer to paragraphs 10–17 and Application Guidance paragraphs AG11–AG29 in the ED for further information on the binding arrangement and enforceability concepts, as well as the mechanisms of enforceability that PBEs should consider.

Transfer rights

Transfer rights provide the basis for the timing of recognition of transfer expenses arising from binding arrangements. Therefore, the reporting entity (transfer provider) must identify the number of distinct transfer rights in the binding arrangement in order to ensure appropriate transfer expense recognition when (or as) the transfer recipient satisfies its obligations.

Refer to paragraph 21 and Application Guidance paragraphs AG31–AG34 in the ED for further information on identifying transfer rights.

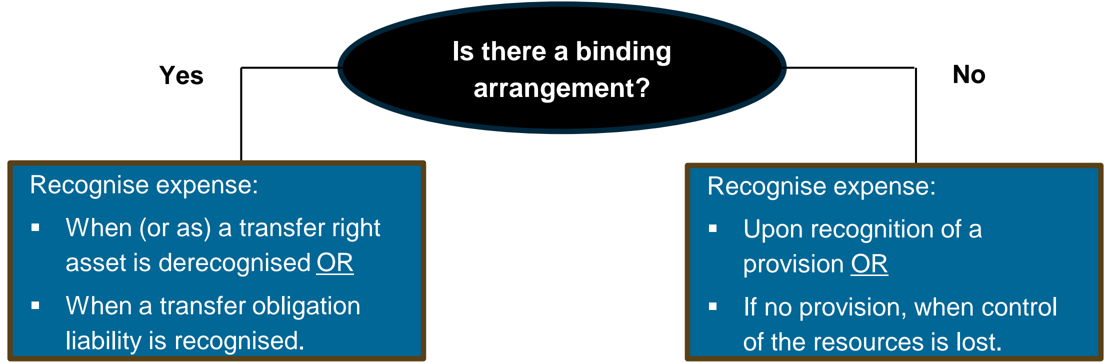
Question

2. Do the binding arrangement, enforceability and transfer right principles outlined in the ED provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

G. Recognition of transfer expense transactions

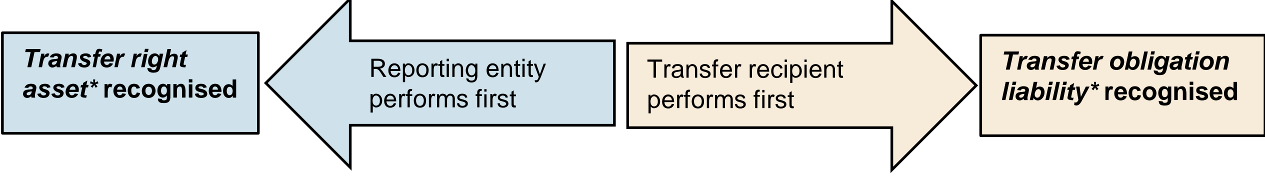
Two models for transfer expense accounting

Once a PBE has determined whether or not there is a binding arrangement, the PBE applies one of two models set out in the proposed PBE IPSAS 48:



Model 1: Transactions *with* binding arrangements

A transfer expense is recognised in one of two ways, depending on which party performs first under the binding arrangement.



The reporting entity (transfer provider) has satisfied its obligation under the binding arrangement. Therefore, a transfer right asset is recognised because the transfer recipient owes performance to the reporting entity in return for those transferred resources. The transfer expense is recognised as (or when) the transfer right asset is derecognised.	The transfer recipient has satisfied its obligation under the binding arrangement. Therefore, a transfer obligation liability is recognised because the reporting entity owes the resources to the recipient. The transfer expense is recognised at the same time as the liability.

* These are defined terms in the proposed PBE IPSAS 48.

Note: a transfer right asset may be derecognised in various ways:

- When (or as) the transfer recipient satisfies its obligations under the binding arrangement
- If the reporting entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations.
- If the transfer right asset is impaired (when the transfer recipient is unable/unwilling to satisfy its obligations)
- When, in the event of the transfer recipient's non-performance, the transfer provider has the enforceable right to receive cash compensation (in this case, a financial asset is recognised).

Refer to paragraphs 22 – 29 and Application Guidance paragraphs AG35–AG49 in the ED for further information on the recognition of transfer expenses arising from binding arrangements.

Question

3. Do you agree with the proposed approach to transfer expense recognition for transactions **with** binding arrangements? Are there any specific challenges you foresee in applying this approach?

G. Recognition of transfer expense transactions (cont.)

Model 2: Transactions *without* binding arrangements

Without a binding arrangement, there can be no transfer right. But a transfer provider may still have a legal or constructive obligation to transfer resources to one or more recipients. Therefore, the first step in the accounting for a transfer expense transaction without a binding arrangement is to determine whether a provision exists, as defined in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and whether it should be recognised. A transfer expense is recognised at the same time as the provision.

If there is no provision, then the transfer expense is recognised when the transfer provider no longer controls the resources.

Refer to paragraph 18 and Application Guidance paragraph AG30 in the ED for further information on the recognition of transfer expense transactions without a binding arrangement.

Application of the proposed recognition requirements to social benefit transactions

Local and central governments provide social welfare payments to beneficiaries as well as services such as education and health to individuals and communities. These transactions are accounted for as transactions without a binding arrangement when they meet the definition of a transfer expense.

There is currently no PBE Standard that specifically applies to social benefit transactions. Therefore, central and local governments have developed their own accounting policies when accounting for these transactions, based on the requirements within PBE IPSAS 19. Since the proposed Standard requires a transfer provider to consider first whether there is a provision under PBE IPSAS 19, we do not expect these proposals to result in a significant change in how these transactions are accounted for.

As a result of these proposals, we have also proposed consequential amendments to PBE IPSAS 19. These proposed amendments:

- remove the current scope exclusion relating to certain obligations of the Crown.
- add guidance to assist PBEs in determining whether, at the reporting date, they have a legal or constructive obligation to provide social welfare payments and services to individuals and communities.

Paragraphs 4.1–4.2 and Application Guidance paragraph AG3.1 in the ED contain guidance on the application of the proposed standard to social benefit transactions. Appendix B in the ED contains the proposed amendments to PBE IPSAS 19.

Questions

4. Regarding the proposed approach to transfer expense recognition for transactions **without** binding arrangements:

   a) Do you agree with the proposed approach? Are there any specific challenges you foresee in applying this approach?

   b) Do you anticipate a change to the accounting for social benefit transactions as a result of applying the proposed approach? If so, how would the accounting change?

   c) Do you consider the proposed guidance, added to PBE IPSAS 19, to be sufficient to assist PBEs in determining whether they have a legal or constructive obligation at the reporting date?

H. Disclosure and RDR concessions

Disclosure

The proposed PBE IPSAS 48 requires a PBE to disclose sufficient information to enable the users of financial statements to understand the nature, amount, timing and uncertainty of expenses and cash flows arising from transfer expense transactions. Therefore, the PBE must disclose information about:

- transfer expenses and related balances;
- transfer arrangements; and
- the significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions.

Refer to paragraphs 50–61 in the ED for the proposed disclosure requirements.

Application of the proposed disclosure requirements to social benefit transactions

The proposed PBE IPSAS 48 does not include disclosure requirements specific to social benefit transactions. Instead, the disclosure requirements applicable to transactions without binding arrangements apply to these transactions. This will likely mean that more disclosure will be required in the financial statements relating to these types of transactions, particularly with respect to qualitative information about social benefit schemes. The proposed standard emphasises the need to apply materiality when deciding on the nature and extent of the disclosures to provide in the financial statements.

Questions

5. Regarding the proposed disclosure requirements:
   a) Do you agree with our proposals?
   b) Do you consider that additional guidance is required in the proposed PBE IPSAS 48, to assist entities with applying the disclosure requirements to social benefit transactions?

RDR concessions

The proposed PBE IPSAS 48 includes disclosure concessions for Tier 2 PBEs. Tier 2 entities will *not* be required to provide the following disclosures:

- **Disclosure of significant payment terms** – refer to paragraphs 59(b) and 60(b) in the ED.
- **Significant risks and uncertainties relating to the realisation of transfer right assets** – refer to paragraph 59(d) in the ED.

The proposed standard also replaces certain existing paragraphs with RDR concessions, for the purposes of clarifying that Tier 2 PBEs are only required to comply with those disclosure requirements in other PBE Standards that are applicable to them. Refer to paragraphs 55–58 and RDR 55.1–RDR 58.1 in the ED.

Question

6. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

I. Implementation and specific issues

The proposed PBE IPSAS 48 introduces a comprehensive and robust framework for recognising and measuring transfer expenses. The proposed standard also aims to address common challenges faced in practice by providing guidance. Some of the key areas where the proposed standard provides specific guidance include:

- **Multi-year funding arrangements**: Clarifying recognition of transfer expenses where funding spans multiple reporting periods (Implementation Guidance Section G.1).
- **Appropriations**: Providing insights on recognising revenue from appropriations (Implementation Guidance Section B.3).
- **Capital transfers**: Addressing the application of the principles in the proposed standard to transactions involving the transfer of resources intended for capital projects (Application Guidance paragraphs AG53–AG55 and Implementation Guidance Section A).

This guidance aims to reduce ambiguity and improve consistency across PBEs in how transfer expenses are reported. However, implementation of a new standard often raises questions or challenges, particularly during the transition period.

To ensure a smooth adoption of the proposed PBE IPSAS 48, we are seeking stakeholder feedback on any areas where further clarification or support might be needed.

Questions

7. Are there any specific types of transactions or scenarios that you believe require additional guidance or clarification in the proposed PBE IPSAS 48?
8. What support or guidance would you consider to be helpful for us to provide during the transition period?

J. Mandatory date and other comments

The ED proposes that PBE IPSAS 48 be applied to annual financial statements covering periods beginning on or after 1 January 2029. Application would be permitted for accounting periods that begin before 1 January 2029 but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

We believe that a mandatory date of 1 January 2029 would allow PBEs sufficient time to prepare for the application of the Standard.

With early application permitted, those PBEs who wish to adopt PBE IPSAS 48 early will be able to do so.

Questions

9. Do you agree with the proposed mandatory date of 1 January 2029?
10. Do you have any other comments on the ED?

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EXTERNAL REPORTING BOARD

Agenda Item 5.1

Memorandum

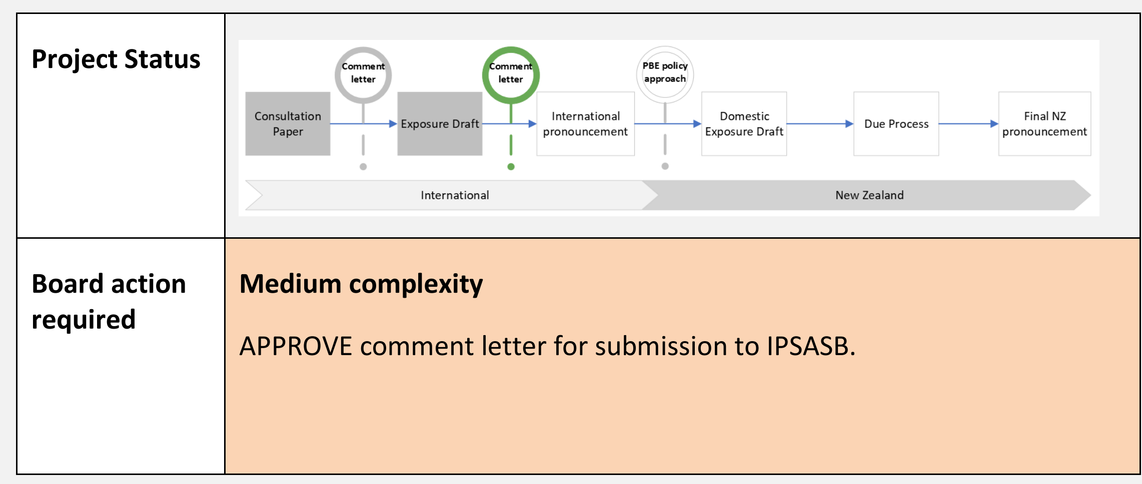
Date:	5 February 2025
To:	NZASB Members
From:	Alex Stainer
Subject:	**IPSASB Exposure Draft 92 *Tangible Natural Resources***

COVER SHEET

Project priority and complexity

Project purpose	To influence the direction of the IPSASB's Natural Resources project which aims to develop a Standard relating to the accounting of natural resources by public sector entities.
Cost/benefit considerations	The proposals in ED 92 mean natural resources meeting the definition of and recognition criteria for an asset, including the ability to be reliably measured, will be recognised in financial statements. As currently drafted, and if adopted into PBE Standards, it would mean natural resources held for conservation would fall within this Standard, causing change to existing practice in NZ.
Project priority	**Medium** Natural resources is a subject of heightened public interest and accounting requirements for natural resources have implications in New Zealand. Comments on the ED are due 28 February 2025.

Overview of agenda item



Project Status	
Board action required	**Medium complexity** APPROVE comment letter for submission to IPSASB.

Purpose and introduction[1]

1. In October 2024, the IPSASB issued Exposure Draft ED 92 *Tangible Natural Resources*. ED 92 proposes to introduce recognition, measurement, disclosure and presentation requirements for tangible natural resources that do not fall within the scope of other existing IPSAS.

2. The purpose of this memo is to seek the Board's approval of the drafted comment letter in respect of this ED.

Recommendations

3. The Board is asked to:

   (a) APPROVE the comment letter for submission to IPSASB.

Structure of this memo

4. The remaining sections in this memo are:

   (a) Background

   (b) Summary of proposals in comment letter

Background

5. In 2018, the IPSASB issued its Strategy Consultation and proposed Strategy and Work Plan. In response to the strategy consultation, respondents were concerned that there was a gap in the IPSASB's accounting guidance on the recognition, measurement, and presentation of natural resources - noting that governments often lack information on the monetary value of natural resources until after they are exploited (i.e., extracted, harvested, or utilized).

6. Based on preliminary research, the IPSASB noted that natural resources accounted for a significant proportion of economic resources in many jurisdictions. Therefore, they concluded that the reporting of natural resources could lead to information regarding the financial position of a public sector entity which is more faithfully representative of the underlying economic reality, particularly in jurisdictions with resource-based and resource rich economies.

7. Based on these responses and initial research, the IPSASB added the natural resources project to its 2019-2023 Work Plan and began developing a Consultation Paper (CP). The CP was issued in May 2022 with the objective to seek constituent feedback on the IPSASB's preliminary views about the extent to which naturally occurring resources in their natural state (natural resources) are capable of being recognised as assets.

[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).

8. The Board commented on several aspects of the CP:

   (a) NZ has a broad range of legal and customary rights over natural resources which can make it contentious as to who owns and controls them;

   (b) there is uncertainty in control and/or obtaining a reliable measurement, which means most natural resources are unable to be recognised as assets;

   (c) those natural resources that can be recognised as assets are already captured by existing IPSAS;

   (d) disclosure/information on the management of natural resources is better suited to being addressed via the IPSASB's sustainability reporting project or within service performance reporting.

9. Overall, the Board concluded and commented that the project should not be progressed any further.

10. Despite our response to the CP (and a number of other respondents with similar views which were acknowledged by the IPSASB in summarising feedback on the CP), the IPSASB have continued to progress the project, noting there remains a public interest issue, and that it is within the IPSASB's responsibility to address these issues with the development of an ED.

11. In developing the ED, IPSASB have:

   (a) removed the concept of natural state/human intervention from the definition of a natural resource;

   (b) limited the range of natural resources that are in the scope of the ED, compared to what was discussed in the CP, by:

      (i) specifying that for a naturally occurring item to be considered a resource, it must be capable of being used in a service delivery program, or in the sale of services, or being exchanged for other resources; and

      (ii) limiting the scope of the ED to *tangible* natural resources.

   (c) acknowledged the recognition difficulties and limitations on the ability to recognise many natural resources (including mineral deposits, water, animals, as explained in application guidance in the ED), while leaving the Standard scope open for recognition of any tangible natural resource that is not in the scope of another standard if the recognition criteria can be met;

   (d) promoted natural resources held for conservation as being within the scope of the ED, and not within the scope of IPSAS 17/45 *Property, Plant and Equipment;*

   (e) used the same recognition and measurement requirements as IPSAS 45 *Property, Plant and Equipment;*

   (f) included disclosure requirements for unrecognised tangible natural resources that meet the definition of an asset but are unable to be measured reliably.

12. At the October Board meeting, and in response to the upcoming ED being issued by the IPSASB, the Board agreed to comment noting that a short letter would suffice and no specific outreach with New Zealand constituents was necessary.

Summary of outreach and feedback received

13. We have published IPSASB ED 92 on our website and notified stakeholders about the ED via Accounting Alert. At the time of writing, we have not yet received formal feedback on IPSASB ED 92.

Summary of proposals in comment letter

14. 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 project, and feedback received from stakeholders at IPSASB briefing meetings to date.

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

Table 1 – Summary of comment letter

Section	Summary
Cover letter	• Acknowledged the intent to close the 'gap' in accounting for Natural Resources. • Noted our previous comments on the Consultation paper - that the project should be halted, with respective disclosure considered within the sustainability project. • Noted our disagreement with a separate standard for natural resources, and that guidance could be included within relevant IPSAS, with separate information about recognition and measurement of natural resources included in staff guidance. • Noted that for the disclosures to be useful, they need to include a broader scope of natural resources not just those that meet the definition/recognition criteria of an asset and this information is more aligned to sustainability reporting or service performance reporting. • The ED does not further advance the underlying rationale behind the project. • Noted that in NZ we consider natural resources held for conservation as PPE. • Noted that there will be an upfront cost in implementing this Standard, and applying the requirements will be subjective including carve out from PPE.
SMC 1 - Scope	• Agreed with intent to not capture those items already accounted for in existing IPSAS. • Disagreed with proposed scope, on the basis natural resources held for conservation should be PPE. • Noted that we do not anticipate any other natural resources being recorded in this Standard. • Noted that with the scope open there could be the possibility that unforeseen tangible natural resources are recognised, and there could be unintended consequences if the requirements within the Standard are not appropriate.

16. We have elected not to provide responses to SMC 2 through to 8 on the basis we wanted to keep our main message focussed and avoid diluting this message by commenting on specific details of the ED.

Questions for the Board

Q1. Does the Board approve the draft comment letter in agenda item 5.2?

Q2. Does the Board agree that any changes to the draft comment letter raised at this meeting should be finalised through review by the Chair?

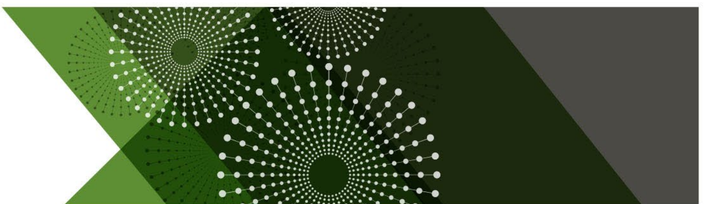
Next steps

17. We will update the draft comment letter for any feedback received from the Board at this meeting and will submit the letter to the IPSASB before the 28th of February 2025.

Attachments

Agenda item 5.2: Draft comment letter

Agenda item 5.3: IPSASB ED 92 *Tangible Natural Resources* (in supporting papers)



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

Submitted to: www.ifac.org

Dear Ross

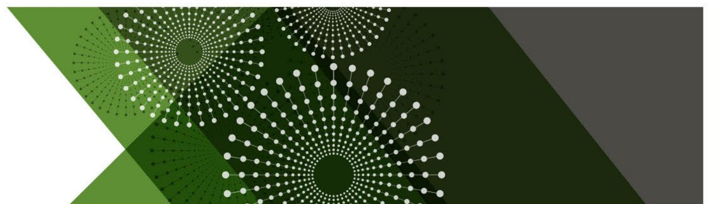
IPSASB Exposure Draft 92 Tangible Natural Resources

1. Thank you for the opportunity to comment on the Exposure Draft, *Tangible Natural Resources* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

2. We understand the intent of the proposals to address the perceived gap in the potential recognition, measurement, presentation and disclosure of tangible natural resources in IPSAS, and the benefit that disclosures and oversight of these types of resources can bring.

3. In 2022, we responded to the Consultation Paper (CP) noting that due to uncertainties over control and/or obtaining a reliable measurement, most natural resources will not be recognised as assets. This reason, along with several others, meant we proposed that the project be halted and relevant disclosures to understand environmental accountability and management of natural resources be considered in the IPSASB's sustainability reporting project. We noted that this information may also be more appropriately included in other areas of general purpose financial reports (GPFRs) rather than the general purpose financial statements (GPFS). Now the ED has been developed, our view has not changed.

4. Given many natural resources do not meet the asset recognition criteria, we disagree with the need for a standalone accounting standard. Tangible natural resources meeting the asset recognition criteria can be accounted for within existing IPSAS, such as IPSAS 12 *Inventories*, IPSAS 27 *Agriculture* and IPSAS 17/45 *Property, Plant and Equipment*. The relevant guidance within the ED could instead be included and made available within these Standards to help with their application to tangible natural resources.



5. In addition, we suggest that general recognition and measurement considerations for the different types of tangible natural resources (water, mineral deposits, animals, plants etc.), as researched by the IPSASB, be included in a separate non-authoritative document. We propose this separate staff guidance dedicated to natural resources is developed to help preparers understand if and when a tangible natural resource can be accounted for and how existing standards apply.

6. Furthermore, we note that the ED proposes the following disclosures:

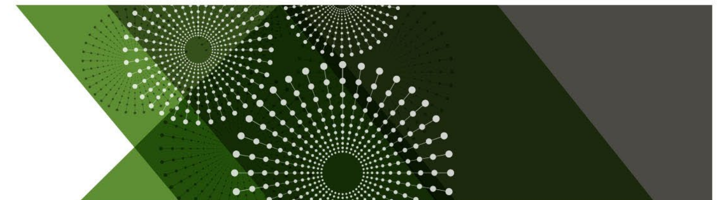
   - the nature and quantity of tangible natural resources;
   - significance of tangible natural resources to achieving the entity's objective; and
   - the entity's custodial responsibility relating to tangible natural resources.

   Considering the initial purpose of this project, in order for this information to be useful and satisfy user needs, these disclosures would need to encompass the broader scope of natural resources that the entity is responsible for managing, conserving and/or acting as custodian for, regardless of whether they meet the definition/recognition criteria of an asset. This broader information is outside the remit of GPFS, and should instead be included in sustainability reporting, or service performance reporting (as appropriate).

7. We consider the work comprising the research and analysis completed by the IPSASB leading to and included in the CP has largely fulfilled the purpose set out at the commencement of this project. This purpose was to respond to concerns that there was a gap in guidance outlining the accounting for natural resources. These concerns were driven by the significant economic importance of natural resources for many jurisdictions, and the lack of information on the monetary value and environmental impact/management of these resources until after they are exploited. Progressing this project to the ED results in ineffective change in reporting on natural resources due to the unlikeliness of asset recognition for many significant natural resources. That fact is illustrated by the ED which, despite implying that tangible natural resources are in scope and should be accounted for, only includes one example of a tangible natural resource which meets the recognition criteria – tangible natural resources held for conservation.

8. We understand the requirements of the Standard are designed with the potential that other tangible natural resources (aside from those held for conservation) could be recognised and accounted for within the scope of this Standard, but it brings to question:

   (a) Whether the requirements in the proposed Standard are appropriate when it is not fully understood exactly what natural resources in which circumstances will be recognised and accounted for in accordance with the proposed Standard (this point is aligned with paragraphs AV12 of the Alternative View); and



(b) Whether it is worthwhile to issue a separate Standard that includes distinct requirements (such as the presentation requirement on the face of the statement of financial position) if that Standard is likely to be used only to account for natural resources held for conservation, rather than natural resources with more significant economic impact, which were considered in detail and drove the commencement of this project, but are unlikely to be recognised e.g. mineral deposits, oil reserves.

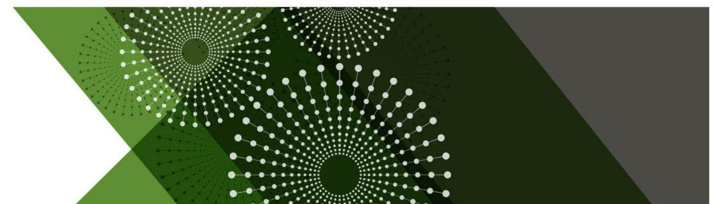
9. In New Zealand, we consider natural resources held for conservation meet the definition of property, plant and equipment (PPE) - refer to our explanation in the Appendix to this letter. These natural resources have already been appropriately accounted for by the requirements of the PPE Standard for many years. As the ED proposes the same recognition and measurement requirements as those contained in IPSAS 45, we do not see the benefit in creating a separate Standard. It will only impose additional costs for any jurisdictions that already recognise tangible natural resources held for conservation as PPE. For such jurisdictions, the proposed Standard will effectively require the carve out of natural resources held for conservation from PPE, and we expect this to require a significant amount of judgement - particularly when establishing primary use for dual purpose items. The same effect of the ED could be achieved with lower costs by simply including tangible natural resources held for conservation as PPE explicitly within the scope of IPSAS 45, with disclosures on this and other types of natural resources contained in wider GPFR.

10. We acknowledge the public interest in the stewardship of natural resources and the view that natural resources held for conservation are fundamentally different to PPE were key considerations for the IPSASB in the development of a separate Standard for tangible natural resources. However, in respect of these:

(a) We consider that the public interest issue of stewardship of natural resources could be equally addressed by our recommendations;

(b) The public interest issue could become exacerbated by the development of a Standard that provides the appearance to the public that many tangible natural resources can be accounted for, whereas in practice many natural resources would not meet the requirements for recognition;

(c) The view that natural resources held for conservation are fundamentally different to PPE seems predicated on conservation being the act of avoiding use as opposed to being in use, whereas we hold the view that natural resources are in use if they are being conserved. More detail on our view is contained in the Appendix.



11. To summarise our view:

    (a) We do not believe a separate standard for natural resources is required

    (b) We do not believe that the most likely outcome from this Standard – splitting out natural resources held for conservation from PPE – justifies or achieves the objectives that this project was intended for;

    (c) We would prefer that the guidance developed in the ED specific to tangible natural resources held for conservation is instead incorporated as part of the PPE and other relevant Standards;

    (d) We consider that general guidance about accounting for natural resources, including information about uncertainties over control and/or reliable measurement of tangible natural resources, could be included in separate staff guidance instead; and

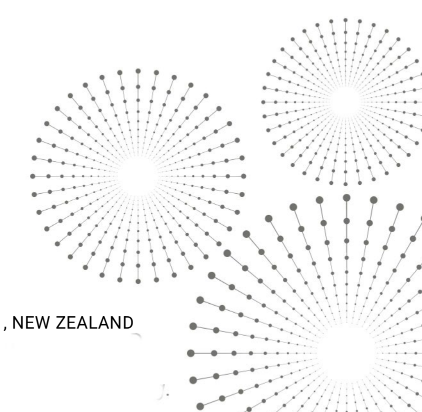
    (e) We believe disclosures developed for tangible natural resources should be considered more broadly to satisfy user needs.

12. We have considered the SMCs and have commented where appropriate given our overall view on these proposals. These comments are included in the appendix attached to this letter. If you have any queries or require clarification of any matters in this letter, please contact Alex Stainer (alex.stainer@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery

Chair – New Zealand Accounting Standards Board



APPENDIX

Response to Specific Matters for Comment

Specific Matter for Comment 1: Scope (paragraphs 3-5):

This Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of any other existing IPSAS. (See paragraphs 3-4, BC8, and BC34.) Do you agree with the proposed scope?

If not, what alternative scoping approach would you propose and why?

As a result of the proposed scope, tangible natural resources held for conservation are one common example of items which could fall within the scope of this Exposure Draft. What other items would you anticipate being accounted for through this Exposure Draft?

This Exposure Draft includes an Alternative View regarding its scope and the definition of tangible natural resources.

1. We agree with the intent of the proposed scope to exclude all items that are already currently accounted for in other IPSAS.

2. However, we disagree with the proposed scope as we do not agree that tangible natural resources held for conservation should be included within the scope of this ED.

3. As noted in our covering letter, tangible natural resources held for conservation that meet the criteria to be recognised as an asset should also meet the current definition of PPE 'tangible assets that are held for use in the production or supply of goods or services…'. This is on the basis that:

   (a) We consider that the act of conservation – which involves careful management and monitoring of natural resources, including sometimes restricting access – is an important *service* that a government (and/or other public sector entities) provides to ensure the wellbeing of present-day citizens and future generation, as well as to meet the country's emission targets (in the case of conserving forests that absorb emissions).

   (b) Tangible natural resources held for conservation are a vital part of delivering this abovementioned service of conservation and protection. Without natural resources to conserve, a government or other reporting entity would not be able to provide a conservation service. Accordingly, these tangible natural resources have a 'use' and are being 'used' as part of providing the abovementioned conservation service.

4. Thus, tangible natural resources held for conservation meet all the elements of the definition of PPE. On this basis, we consider that natural resources held for conservation are in the scope of IPSAS 45 *Property, Plant and Equipment*, and should be accounted for in accordance with that Standard, rather than being scoped into a separate standard.

5. The view reflected in the ED that natural resources held for conservation are fundamentally different to PPE seems predicated on conservation being the act of avoiding use as opposed to being in use, and that items of PPE are typically consumed in the act of supplying a service (paragraph IG18). However, as explained above, we consider that natural resources are in use if they are being conserved (i.e. they are used as part of the service of conservation) – and we note that not all PPE are consumed in delivery of goods and services (e.g. land held for purposes of delivering services other than conservation is not necessarily consumed as it is used for providing services, as reflected by lack of depreciation).

6. Furthermore, as noted in the covering letter, a consequence of scoping tangible natural resources held for conservation into a separate standard is that such natural resources would have to be split out from the rest of PPE and presented separately in the statement of financial position – and we consider that the costs for preparers arising from this change would not be justified by benefits. Furthermore, for jurisdictions that are currently not recognising tangible natural resources held for conservation, specifying that such assets are PPE in the scope of IPSAS 45 would mean that such jurisdictions can account for these natural resources using a familiar standard with known and well-understood recognition and measurement criteria, rather than a new, separate standard.

7. In terms of examples of tangible natural resources that could fall within the scope of this ED, we do not anticipate any other natural resources being accounted for through this ED at this time. However, with the scope as open as it is currently drafted, it could mean that unforeseen tangible natural resources are recognised (either now or in future), and there could be unintended consequences if the requirements of the ED are not specifically fit for purpose in those circumstances.

Exposure Draft 92
October 2024
Comments due: February 28, 2025

IPSAS®

Proposed International Public Sector Accounting Standard ®

Tangible Natural Resources

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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In meeting this objective, the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Tangible Natural Resources*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by February 28, 2025.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Comments must be received in English to be considered. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose guidance on the recognition, measurement, and presentation of tangible natural resources in the general purpose financial statements.

Guide for Respondents

The IPSASB would welcome comments on all the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs or Specific Matters for Comment to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1: Scope (paragraphs 3-5):

This Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of any other existing IPSAS. (See paragraphs 3-4, BC8, and BC34.) Do you agree with the proposed scope? If not, what alternative scoping approach would you propose and why?

As a result of the proposed scope, tangible natural resources held for conservation are one common example of items which could fall within the scope of this Exposure Draft. What other items would you anticipate being accounted for through this Exposure Draft?

This Exposure Draft includes an Alternative View regarding its scope and the definition of tangible natural resources.

Specific Matter for Comment 2: Definitions (paragraph 6):

This Exposure Draft defines a natural resource as an item which is naturally occurring and embodies service potential, the capability to generate economic benefits, or both, and a tangible natural resource as a natural resource with physical substance.

Do you agree with the proposed definitions? If not, why not?

This Exposure Draft includes an Alternative View regarding its scope and the definition of tangible natural resources.

Specific Matter for Comment 3: Depreciation (paragraph 23):

This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this [draft] Standard have indefinite useful lives on the basis that they are generally not used or consumed in the same manner as tangible assets within the scope of other IPSAS. Therefore, these tangible natural resources are not depreciated.

Do you agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated? If not, why not?

Specific Matter for Comment 4: Exemption from Certain Disclosures (paragraph 51):

As explained in paragraph BC31, this Exposure Draft exempts an entity from disclosing certain information which may lead to further degradation of tangible natural resources which are rare or endangered.

Do you agree with the proposed disclosure exemption? If not, why not?

Specific Matter for Comment 5: Cross-References to IPSAS 45, *Property, Plant, and Equipment* (paragraphs 15 and 54):

This Exposure Draft includes cross-references to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and the disclosure requirements for current value. This guidance was incorporated by cross-reference as the acquisition of tangible natural resources is expected to be rare in the public sector, and there is familiarity with the principles on the determination of cost, which are consistent with those found in IPSAS 45.

Do you agree that these cross-references are sufficiently clear? If not, how should the above guidance be incorporated into the Final Standard?

Specific Matter for Comment 6: Transition (paragraph 60):

This Exposure Draft allows the application of its requirements on a modified retrospective approach, by recognizing tangible natural resources which meet the recognition criteria on the date of initial application of the [draft] Standard at their deemed cost, or on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Do you agree that the option to apply the proposed guidance on a modified retrospective basis will result in useful information? If not, why not?

Specific Matter for Comment 7: Amendment to the Description of 'Heritage Asset' in IPSAS 45, *Property, Plant, and Equipment* (Appendix B):

The IPSASB proposes to amend the description of 'heritage asset' in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this [draft] Standard.

Do you agree with the proposed amendment? If not, why not?

Specific Matter for Comment 8: Sufficiency of Proposed Implementation Guidance and Illustrative Examples:

The non-authoritative guidance in this [draft] Standard was developed for topics that are potentially complex and difficult to apply in practice, are areas of concern for constituents, or where additional non-authoritative guidance could be useful.

Do you agree that the proposed implementation guidance and illustrative examples are sufficient? If not, what other topics would be helpful and why?

EXPOSURE DRAFT 92, TANGIBLE NATURAL RESOURCES

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Appendix B: Amendments to Other IPSAS

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Implementation Guidance

Illustrative Examples

Comparison with GFS

Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity shall apply to report relevant information to users of financial statements about the nature, amounts, timing, and uncertainties arising from tangible natural resources.**

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

   (a) Sets out the recognition, measurement, and presentation requirements for tangible natural resources; and

   (b) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:

      (i) The nature of, and risks associated with, tangible natural resources; and

      (ii) The effects of tangible natural resources on the entity's financial position, financial performance, and cash flows.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for tangible natural resources as defined in this [draft] Standard, except where:**

   (a) **The resource is held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and is expected to be used for more than one reporting period. The nature of such a resource is consistent with an item of property, plant, and equipment within the scope of IPSAS 45, *Property, Plant, and Equipment*;**

   (b) **The resource consists of materials or supplies to be consumed in the production process or in the rendering of services, held for distribution in the ordinary course of operations or in the process of production for sale or distribution. The nature of such a resource is consistent with inventories within the scope of IPSAS 12, *Inventories*;**

   (c) **The resource is held to earn rentals or capital appreciation, or both, which is consistent with an investment property within the scope of IPSAS 16, *Investment Property*; or**

   (d) **The resource is a biological asset whose biological transformation is managed for sale, distribution, or conversion into agricultural produce. Such a resource would be a biological asset within the scope of IPSAS 27, *Agriculture*.**

4. **This [draft] Standard also does not apply to:**

   (a) **Tangible natural resource-related obligations within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;**

   (b) **Intangible assets as defined in IPSAS 31, *Intangible Assets*;**

   (c) **Service concession assets within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*;**

   (d) **Leases as defined in IPSAS 43, *Leases*;**

   (e) **Tangible natural resources classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and**

(f) **Exploration and evaluation assets within the scope of IPSAS 50, *Exploration for and Evaluation of Mineral Resources.***

5. Tangible natural resources held for conservation are one common group of tangible natural resources which could fall within the scope of this [draft] Standard. Paragraphs AG3-AG7 provide additional guidance on these resources.

Definitions

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

For the purposes of this [draft] Standard, a natural resource is an item which:

(a) Is naturally occurring; and

(b) Embodies service potential, or the capability to generate economic benefits, or both.

Tangible natural resources are natural resources with physical substance.

A class of tangible natural resources means a grouping of tangible natural resources of a similar nature or held for a similar reason that is shown as a single item for the purpose of display and disclosure in the financial statements.

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

7. Paragraphs AG8–AG9 provide additional guidance on the definitions in this [draft] Standard.

Recognition

8. **A tangible natural resource shall be recognized if, and only if:**

(a) **It is probable that future economic benefits or service potential associated with the natural resource will flow to the entity;**

(b) **The entity controls the tangible natural resource as a result of past events; and**

(c) **The tangible natural resource can be measured reliably.**

9. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed.

10. If an entity holds a tangible natural resource which meets the definition of an asset, but does not meet the recognition criterion in paragraph 8(c), the information required by paragraph 55 shall be disclosed in the notes to the financial statements. If subsequently, the tangible natural resource becomes reliably measurable, the entity shall, from that date, recognize the tangible natural resource in accordance with paragraph 8 and apply the measurement principles in this [draft] Standard.

11. Depending on the nature and risks associated with the item(s), as well as the objectives for which an entity holds the item(s), it may be appropriate to (a) disaggregate significant items into separate units of account, then applying the recognition criteria to each individual unit, or (b) aggregate individual items into one unit of account, then apply the recognition criteria to the aggregate value. Paragraphs AG17-AG21 provide additional guidance on determination of the unit of account.

Measurement

Initial Measurement

12. **Where a tangible natural resource is recognized as an asset as the result of an event that is not a transaction in an orderly market, including non-exchange transactions, the asset shall be measured initially at its deemed cost. An entity shall apply IPSAS 46, *Measurement*, when measuring the deemed cost of such a recognized tangible natural resource.**

13. For the purpose of this [draft] Standard, the initial measurement of a recognized tangible natural resource at its deemed cost in accordance with the requirement of paragraph 12, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraphs 18-22 and the supporting Application Guidance only apply where an entity elects to revalue a recognized tangible natural resource in subsequent reporting periods.

14. **A recognized tangible natural resource acquired through an exchange transaction shall be measured at its cost.**

15. When determining the cost of a recognized tangible natural resource acquired through an exchange transaction, the entity shall apply the principles on elements of cost and measurement of cost from paragraphs 14-22 of IPSAS 45.

Subsequent Measurement

16. **After initial recognition, an entity shall apply the measurement requirements from IPSAS 46 by choosing either the historical cost model or the current value model as its accounting policy. An entity shall apply the chosen policy to an entire class of recognized tangible natural resources.**

Historical Cost Model

17. **Where an entity subsequently chooses to measure a recognized tangible natural resource, which was initially measured at its cost or deemed cost, at its historical cost, the resource shall be carried at that cost or deemed cost less any accumulated depreciation (if applicable) and any accumulated impairment losses.**

Current Value Model

18. **Where an entity chooses to measure a recognized tangible natural resource after initial recognition using the current value model, and its current value can be measured reliably, it shall be carried at a revalued amount, being its current value at the date of revaluation, less any subsequent accumulated depreciation (if applicable) and subsequent accumulated impairment losses. A tangible natural resource or part of the resource within the scope of this [draft] Standard is measured at fair value if it is held for its financial capacity, or at current operational value if it is held for its operational capacity. If the current value of a recognized tangible natural resource cannot be measured after initial recognition at cost, an entity shall apply the historical cost model to that resource.**

19. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 20-22.**

20. **If the carrying amount of a class of tangible natural resources is increased as a result of revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of tangible natural resources previously recognized in surplus or deficit.**

21. **If the carrying amount of a class of tangible natural resources is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of tangible natural resources.**

22. **Revaluation increases and decreases relating to individual assets within a class of tangible natural resources must be offset against one another within that class but must not be offset in respect of assets in different classes of tangible natural resources.**

Depreciation

23. **An entity shall assess whether the useful life of a recognized tangible natural resource is finite or indefinite, and if finite, the length of that useful life. There is a rebuttable presumption that recognized tangible natural resources within the scope of this [draft] Standard have indefinite useful lives, as these resources are typically not used or consumed like tangible assets within the scope of other IPSAS.**

24. A tangible natural resource with a finite useful life is depreciated, while a tangible natural resource with an indefinite useful life is not depreciated.

Assets with Indefinite Useful Lives

25. The term “indefinite” does not mean “infinite.” The useful life of recognized tangible natural resources should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, a conclusion that the useful life of a recognized tangible natural resource is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current condition.

Assets with Finite Useful Lives

26. **A recognized tangible natural resource shall be regarded as having a finite useful life when, based on an analysis of all the relevant factors, there is clearly a foreseeable limit to the period over which the asset is expected to provide future economic benefits or service potential to the entity.**

27. The useful life of a recognized tangible natural resource may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.

28. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**

29. **The depreciable amount of a recognized tangible natural resource shall be allocated on a systematic basis over its useful life.**

30. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

31. **The depreciation method shall reflect the pattern in which the asset is expected to provide future economic benefits or service potential to the entity.**

32. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date, and if there has been a significant change in the pattern in which the asset is expected to provide service potential to the entity, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.**

Impairment

33. **To determine whether a tangible natural resource within the scope of this [draft] Standard is impaired, an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. IPSAS 21 and IPSAS 26 explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.**

34. An entity is required to review tangible natural resources with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21 or IPSAS 26.

Derecognition

35. **The carrying amount of a recognized tangible natural resource, or a part thereof, shall be derecognized:**

    (a) **On disposal;**

    (b) **When the entity otherwise ceases to control the resource; or**

    (c) **When no future economic benefits or service potential is expected from the resource.**

36. **The gain or loss arising from the derecognition of a recognized tangible natural resource shall be included in surplus or deficit when the item is derecognized.**

37. **The gain or loss arising from the derecognition of a recognized tangible natural resource shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

38. The consideration receivable on disposal of tangible natural resources is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 47, *Revenue*, reflecting the effective yield on the receivable.

Reclassification

39. If the primary intended use of a recognized tangible natural resource or a specific component of that asset changes, the recognized tangible natural resource or its component shall be reclassified based on its new primary intended use. The net carrying amount of such an asset or its component immediately before reclassification shall be its cost for subsequent accounting in accordance with IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45.

40. An entity shall reclassify a recognized tangible natural resource, or a component of a recognized tangible natural resource, as an asset held for sale within the scope of IPSAS 44 if it meets the classification criteria specified in paragraphs 11-19 of IPSAS 44.

Presentation

Display

41. **An entity shall display recognized tangible natural resources within the scope of this [draft] Standard as a separate line item in the statement of financial position.**

42. Based on the requirements in paragraph 88 of IPSAS 1, *Presentation of Financial Statements*, an entity is required to present separately tangible natural resources within the scope of this [draft] Standard as separate line items in the statement of financial position based on the entity's primary purpose for holding the resources. For example, tangible natural resources which are held for conservation purposes are described as 'tangible natural resources held for conservation' on the face of the financial statements and presented separately from tangible natural resources held for other purposes (if applicable). Alternatively, this breakdown can be shown in the Notes to the Financial Statements.

Disclosure

43. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of the financial statements to evaluate:**

    (a) **The nature of, and risks associated with, tangible natural resources within the scope of this [draft] Standard; and**

    (b) **The effects of tangible natural resources on the entity's financial position, financial performance, and cash flows.**

44. Information regarding tangible natural resources which meet the definition of an asset must be disclosed in the financial statements, even when the asset is not recognized. (See paragraphs 55-57.)

Disclosures for Recognized Tangible Natural Resources

45. **For recognized tangible natural resources within the scope of this [draft] Standard, an entity shall disclose the following:**

    (a) **A narrative description of the recognized tangible natural resource, including:**

        (i) **The nature or type of the resource;**

        (ii) **Information regarding the location and quantity of the resource;**

(iii) **If applicable, the significant judgments applied to determine the various units of account of a tangible natural resource;**

(iv) **The significance of the tangible natural resource in relation to achieving the entity's objectives, including how the tangible natural resource is expected to provide future economic benefits or service potential; and**

(v) **The significant judgments applied to determine that the tangible natural resource meets the asset recognition criteria;**

(b) **The measurement model and basis used for determining the gross carrying amount;**

(c) **If applicable, why the asset is depreciable, the depreciation method used, the useful lives or the depreciation rates used, and the gross carrying amount and the accumulated depreciation at the beginning and end of the period; and**

(d) **A reconciliation of the carrying amount at the beginning and end of the period, showing:**

(i) **Any additions;**

(ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

(iii) **Increases and decreases resulting from revaluations under paragraphs 19, and 20-22 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(iv) **If applicable, depreciation;**

(v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate; and**

(vii) **Other relevant changes.**

46. **The financial statements shall also disclose for each class of recognized tangible natural resources in the financial statements:**

(a) **The existence and amounts of restrictions on title, legal, or similar limits on the use of tangible natural resources due to environmental or other regulatory requirements; and**

(b) **The existence and amounts of tangible natural resources pledged as securities for liabilities, or other custodial responsibilities.**

47. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For recognized tangible natural resources, such disclosure may arise from changes in estimates with respect to:

(a) Residual values;

(b) Useful lives; and

(c) Depreciation methods.

48. **If a class of recognized tangible natural resources is stated at revalued amounts, the following shall be disclosed:**

    (a) **The effective date of the revaluation;**

    (b) **Whether an independent valuer was involved;**

    (c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**

    (d) **The sum of all revaluation surpluses for individual tangible natural resources within that class; and**

    (e) **The sum of all revaluation deficits for individual tangible natural resources within that class.**

49. In accordance with IPSAS 21 or IPSAS 26, as appropriate, an entity discloses information on impaired tangible natural resources in addition to the information required by paragraphs 45(d)(iii) and 45(d)(v)-45(d)(vi).

50. Users of the financial statements may also find the following information relevant to their needs. Therefore, entities are encouraged, but not required, to disclose the following:

    (a) When the historical cost model is used, the current value of a tangible natural resource when it is materially different from the carrying amount; and

    (b) If applicable, the gross carrying amount of any fully depreciated tangible natural resources.

51. In rare cases, the disclosure of some or all of the information required by paragraphs 45-50 can lead to further endangerment or degradation of a tangible natural resource. In such cases, an entity need not disclose the information, but shall disclose the general nature of the tangible natural resource, together with the fact that, and the reason why, certain information has not been disclosed.

Current Value Measurement

52. As noted in paragraph 16, the initial measurement of a recognized tangible natural resource at its deemed cost does not require the entity to choose the current value model for its accounting policy for subsequent measurement. Where it does so, the requirements of paragraph 53 are applicable for recognized tangible natural resources which are subsequently measured using the current value model.

53. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

    (a) **For tangible natural resources that are measured at current value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

    (b) **For current value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

54. To meet the objectives in paragraph 53, an entity shall consider the requirements for current operational value or fair value in paragraphs 80-84 of IPSAS 45.

Disclosure of Unrecognized Tangible Natural Resources

55. **Where a tangible natural resource meets the definition of an asset but is not recognized in the financial statements because, at initial measurement, its cost or deemed cost cannot be measured reliably, the entity shall disclose:**

    (a) **Qualitative information regarding the resource such as the nature or type of resource, its location, and if available, its quantity;**

    (b) **The difficulties in obtaining a reliable measurement that prevented recognition; and**

    (c) **The significance of the unrecognized tangible natural resource in relation to delivery of the entity's objectives**.

56. Where subsequent expenditures on unrecognized tangible natural resources are recognized, the disclosure requirements in paragraphs 45-54 will apply.

57. Where an entity acts as a custodian of an unrecognized tangible natural resource, the entity shall explain in the Notes to the Financial Statements the nature of its custodial responsibilities, including the legislation or similar means that establishes the custodial responsibilities over the resource.

Effective Date and Transition

Effective Date

58. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is permitted. If an entity applies this [draft] Standard for a period beginning before [MM DD YYYY], it shall disclose that fact.**

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

Transition

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

    (a) **Using a modified retrospective approach by recognizing the tangible natural resources which meet the asset recognition criteria on the date of initial application of this [draft] Standard at their deemed costs (current values) as at the date of initial application. The entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit (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 need not consider tangible natural resources which had previously met the recognition criteria but were derecognized prior to the date of initial application; or**

    (b) **Retrospectively in accordance with IPSAS 3.**

61. For the purposes of the requirements in paragraph 60, the date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard.

62. If an entity elects to apply this [draft] Standard using the modified retrospective approach in accordance with paragraph 60(a), the entity shall disclose this fact.

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 92).

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

(a) Flowchart Depicting the Application of [draft] IPSAS [X] (ED 92) (paragraph AG2);

(b) Scope (paragraphs AG3–AG7);

(c) Definitions (paragraphs AG8–AG9);

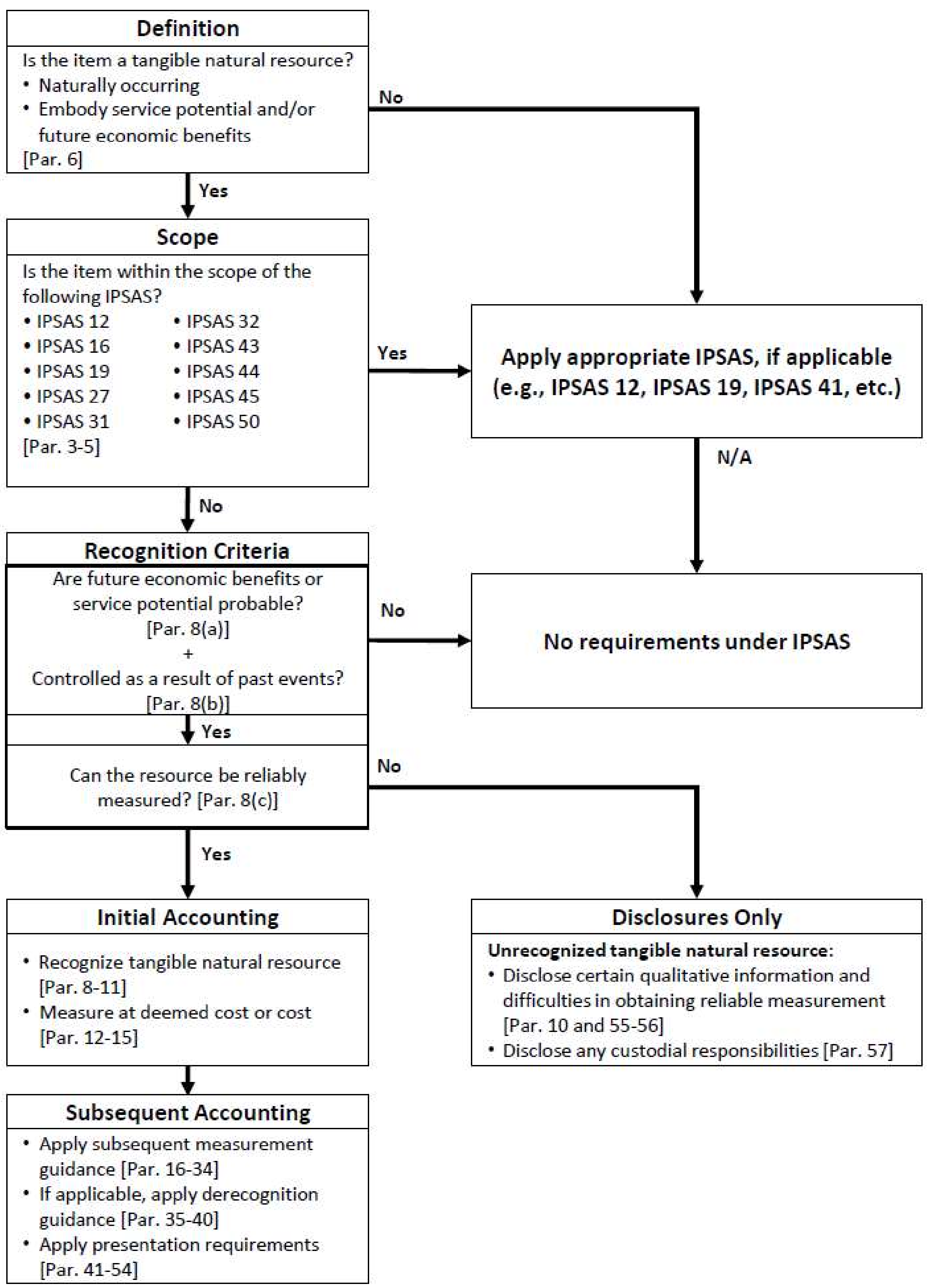
(d) Recognition (paragraphs AG10–AG24);

(e) Measurement (paragraphs AG25–AG32); and

(f) Presentation (paragraphs AG33–AG34).

Flowchart Illustrating the Application of [draft] IPSAS [X] (ED 92)

AG2. The flowchart below may assist entities with the key considerations when applying this [draft] Standard.



Scope (paragraphs 3-5)

AG3. This [draft] Standard applies to all tangible natural resources which are not within the scope of the IPSAS noted in paragraphs 3-4. As a result of this scoping approach, tangible natural resources outside the scope of these standards, such as those held for conservation, could fall within the scope of this [draft] Standard.

Tangible Natural Resources Held for Conservation

AG4. Conservation is described as the act of managing and protecting a tangible natural resource from degradation.

AG5. Tangible natural resources held primarily for conservation purposes, rather than their use or disposal, may need to be considered assets because of the service potential provided in achieving the objectives of a public sector entity. For example, a government or public sector entity could have an objective to maintain the current state of a tangible natural resource for the benefit of its citizens in future generations. The conservation of the tangible natural resource would achieve this objective.

AG6. As a result, a tangible natural resource held primarily for conservation, which is controlled by the entity as a result of past events and can be measured reliably, shall be recognized as an asset within the scope of this [draft] Standard.

AG7. Some tangible natural resources held for conservation may also be considered heritage assets as specified in IPSAS 45, as these items are held for long periods and preserved for the benefit of future generations in addition to being naturally occurring tangible items that embody service potential and/or the capability to generate future economic benefits. Such tangible natural resources are within the scope of this [draft] Standard.

Definitions (paragraphs 6-7)

AG8. Naturally occurring items are the living and non-living components of the Earth, together constituting the biophysical environment, which came into existence in nature without the actions of humankind.

AG9. For a naturally occurring item to be considered a resource, it must embody service potential, the capability to generate economic benefits, or both. An entity may demonstrate satisfaction of this criterion when there is a plan detailing how the item is expected to provide service potential or generate economic benefits for the entity, the entity's ability and intent to carry out the plan, and if necessary, how the entity will obtain the resources necessary to carry out this plan.

Recognition (paragraphs 8–11)

Application of the Recognition Criteria

AG10. The recognition of a tangible natural resource as an asset involves an assessment of any uncertainties related to the existence and measurement of the item. For some naturally occurring items, until the item is extracted, there will be uncertainty over the existence, quantity and quality of the item in a given location. This impacts the assessment of whether the item is a recognizable asset because an item that is subjected to existence uncertainty may not be considered a resource until this uncertainty has been resolved.

AG11. An entity evaluates all costs related to a tangible natural resource at the time they are incurred using the recognition principle in paragraph 8. These costs include costs incurred initially to acquire a tangible natural resource.

Control as a Result of Past Events

AG12. An entity can obtain control of a resource through an event that is not a transaction in an orderly market, which could include non-exchange transactions or the exercise of sovereign powers, or through exchange transactions, such as a purchase from a third party. The exercise of sovereign power creates an asset only when the entity has a right to receive resources, and it can control those resources. For example, a government entity may be required to pass legislation and establish a legal framework to make use of certain tangible natural resources in its jurisdiction, before being able to conclude that these resources can be controlled.

AG13. In assessing whether it presently controls a tangible natural resource, an entity assesses whether one or more of the following indicators of control exists:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the entity can achieve its objectives with the resource; or

(d) The existence of an enforceable right to service potential arising from the resource.

Assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG14. No one indicator is more important than another indicator. Legal ownership is only one indicator demonstrating control of a tangible natural resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to the service potential. In such circumstances, an entity considers substance over form in determining whether or not it controls the asset.

Changes in the Ability to Reliably Measure a Resource due to Changes in Facts and Circumstances

AG15. When a tangible natural resource becomes reliably measurable due to changes in facts and circumstances, an entity applies the guidance on changes in accounting estimates in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*.

Exchange of Assets

AG16. One or more tangible natural resources may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. For a tangible natural resource acquired through a non-monetary exchange transaction, if an entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Unit of Account

AG17. As noted in paragraph 11, an entity is required to use judgment to identify the unit of account to which the recognition and measurement guidance are applied. This [draft] Standard does not prescribe a unit of account for a recognized tangible natural resource.

AG18. The following factors can indicate that significant components of a tangible natural resource may constitute separate units of account:

(a) The components are separately identifiable and measurable;

(b) The components are material in relation to the overall asset as well as to the financial statements as a whole; and

(c) There are different reasons for holding the various components within the tangible natural resource. For example, an entity may hold a natural forest mainly for conservation, but a specific portion of the forest is managed for the growth of agricultural produce. The managed portion of the forest would be considered a biological asset within the scope of IPSAS 27 while the remaining forest would be considered a tangible natural resource held for conservation within the scope of this [draft] Standard.

AG19. In contrast, the following factors can indicate that separate tangible natural resources may be aggregated into one single unit of account:

(a) The items are subject to similar risks, despite having some different physical characteristics;

(b) The items are managed together in aggregate and likely subject of the same transactions; and

(c) The items within the unit of account are unlikely or unable to separately provide service potential to the entity.

AG20. Continuing with the conservation example in paragraph AG18(c), if the conserved forest is part of a reservation, the entity could manage the whole reservation on an integrated basis. Activities such as controlling access into the reservation and monitoring the biodiversity within the area could be performed on a reservation-wide basis with the different species of plants and animals within the reservation not being managed individually. In this case, it may be appropriate to account for the various tangible natural resources within the reservation as a single unit of account.

AG21. The determination of the unit of account may also impact the subsequent measurement of a tangible natural resource. When a recognized tangible natural resource consists of multiple units of account with differing useful lives, and the cost or current value of each unit is significant in relation to the total cost or current value of the resource, each unit of account shall be measured separately.

Subsequent Expenditures

AG22. An entity recognizes subsequent expenditures on tangible natural resources in accordance with the recognition principle in paragraph 8. Under this principle, the costs of day-to-day maintenance and other expenditures which do not result in incremental service potential are recognized in surplus or deficit as incurred. Costs of day-to-day maintenance may primarily consist of the costs of labor and consumables and could include, for example, when rangers are employed to protect a tangible natural resource or when some form of chemical treatment is applied.

AG23. In contrast, a tangible natural resource or its components may require restoration or regeneration due to certain events. For example, a portion of a forest may be destroyed by wildfires, and an entity may have to plant certain species of trees to repopulate the forest. The carrying amount of the trees that were replaced is derecognized in accordance with the paragraphs 35-38 of this [draft] Standard. Under the recognition principle in paragraph 8, an entity would recognize the cost of repopulating the forest as an asset, as these costs result in incremental service potential that would likely flow to the entity. Depending on the specific facts and circumstances (for example, whether the replanted trees are actively managed or used for other services during their growth stage), an entity should consider if the costs of replanting the trees could be recognized as an asset within the scope of this [draft] Standard or another Standard such as IPSAS 45.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

AG24. The recognition of a subsequent expenditure as an asset is unaffected by whether or not the underlying tangible natural resource was initially recognized. If the subsequent expenditure relates to a tangible natural resource that were not initially recognized because its cost or deemed cost could not be measured reliably, it should nonetheless be reviewed in light of paragraph 8 to determine whether or not it should be recognized as an asset.

Measurement (paragraphs 12-34)

Measurement of an Asset Held for Its Operational Capacity

AG25. Generally, a tangible natural resource held with the primary objective of generating a financial return will be within the scope of IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45, and the measurement of a non-current tangible natural resource held for sale would be determined by IPSAS 44. A tangible natural resource within the scope of this [draft] Standard that is held for conservation will generally be held for its operational capacity, and its current value shall be measured at current operational value. Tangible natural resources within the scope of this [draft] Standard that are held for other purposes could be measured at fair value if they are held for their financial capacity.

Application of the Current Value Model

AG26. The frequency of revaluations depends upon the changes in current values of the recognized tangible natural resources being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some recognized tangible natural resources may experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for other recognized tangible natural resources. For example, a mature recognized tangible natural resource held for conservation with only insignificant annual changes in current value may only require a revaluation every three or five years.

AG27. When a recognized tangible natural resource is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated proportionately to the change in carrying amount. The accumulated depreciation (if applicable) at the date of the revaluation is adjusted to equal the difference between the

gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation (if applicable) and accumulated impairment losses forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 20 and 21.

AG28. A class of recognized tangible natural resources is a group of assets of a similar nature or held for similar reasons. The following are examples of separate classes:

(a) Conservation areas consisting of wildlife, habitat areas, and bodies of water which are all subjected to the same management activities;

(b) Certain species of animals; and

(c) Forests in designated areas.

When grouping recognized tangible natural resources into classes, an entity may identify items with similar nature, but held for different reasons or functions, or vice versa. For example, while various forests might be physically similar in nature, some may be held for conservation purposes and others for commercial or agricultural purposes. This may result in the entity identifying a class of forests within the scope of this [draft] Standard, while other forests of a similar nature may fall within the scope of another IPSAS (see paragraph 3(a)).

AG29. The items within a class of recognized tangible natural resources are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

AG30. Some or all of the revaluation surplus included in net assets/equity in respect of recognized tangible natural resources may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets with the class of tangible natural resources to which the surplus relates are derecognized. However, if depreciation is applicable, some of the surplus may be transferred as the assets are depreciated. In such a case, the amount of surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets, and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

Depreciation

AG31. Although there is a rebuttable presumption that recognized tangible natural resources within the scope of this [draft] Standard have indefinite useful lives, a recognized tangible natural resource may still be regarded as having a finite useful life based on an analysis of all relevant factors. In such cases, a significant part of the recognized tangible natural resource may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

AG32. To the extent that an entity depreciates separately some parts of a recognized tangible natural resource, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the useful lives of its parts.

Presentation (paragraphs 41-57)

Disclosure of Unrecognized Tangible Natural Resources when Cost or Current Value Cannot be Measured Reliably

AG33. The disclosures required by paragraph 55 for unrecognized tangible natural resources should ensure that, when read in the context of information about recognized tangible natural resources, the financial statements provide useful and relevant information about the entity's overall holding of tangible natural resources, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG34. These disclosures may be presented in aggregate for groups or classes of tangible natural resources, provided this aggregation does not obscure significant information.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 88(ba), 107(ca), and 153T are added, and paragraphs 92 and 134 are amended. New text is underlined, and deleted text is struck through.

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:**

    …

    (ba) Tangible natural resources with a description of the purpose for holding the resource (e.g., Tangible natural resources held for conservation);

…

92. The use of different measurement models for different classes of assets suggests that their nature or function differs and, therefore, ~~that~~ they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45. Similarly, different classes of tangible natural resources can be carried at historical cost or current value in accordance with [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

…

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

…

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

     …

     (ca) Disposals of items of tangible natural resources;

…

Disclosure of Accounting Policies

…

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSAS~~s~~. An example is disclosure of whether an entity applies the ~~fair~~ current value or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some

IPSASs specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, IPSAS 45 and [draft] IPSAS [X] (ED 92) requires disclosure of the measurement bases used for classes of property, plant, and equipment or classes of tangible natural resources. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

Effective Date

…

153T. **Paragraphs 88(ba) and 107(ca) were added, and paragraphs 92 and 134 were amended by [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, issued on [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED 92) at the same time.**

…

Amendments to IPSAS 12, *Inventories*

Paragraphs 3(c) and 51K are added. New text is underlined.

…

3. This Standard does not apply to the measurement of inventories held by:

   …

   (c) Public sector entities in the form of tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

   …

Effective Date

…

51K. Paragraph 3(c) was added by [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, issued on [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED 92) at the same time.

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6(b) and 101M are added. New text is underlined.

…

6. This Standard does not apply to:

   …

(c) Tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

…

Effective Date

…

101M. Paragraph 6(b) was amended by [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, issued on [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED 92) at the same time.

…

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3(e) and 56K are added. New text is underlined.

…

3. This Standard does not apply to:

…

(e) Tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

…

Effective Date

…

56K. Paragraph 3(e) was added by [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, issued on [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED 92) at the same time.

…

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

Paragraphs 62D, 62E, and 154R are added. New text is underlined.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

…

[draft] IPSAS [X] (ED 92), *Tangible Natural Resources*

62D. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to tangible natural resources until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

62E. This Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS at the same time as considering the recognition of tangible natural resources in [draft] IPSAS [X] (ED 92). Where a first-time adopter takes advantage of the exemption in this Standard, it is not required to recognize tangible natural resources until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

…

Effective Date

…

154R. **Paragraphs 62D and 62E were added by [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, issued on [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED 92) at the same time.**

…

Amendments to IPSAS 45, Property, Plant, and Equipment

Paragraphs 3(b) and AG2 are amended, and paragraph 87D is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

…

(b) Tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Tangible Natural Resources* ~~Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources~~);

…

Effective Date

…

85D. Paragraphs 3(b) and AG2 were amended by [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, issued on [MM DD YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application

is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED 92) at the same time.

…

Heritage Assets

…

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, ~~environmental,~~ historical, ~~natural,~~ scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 92).

Introduction

BC1. In March 2020, the IPSASB approved the project brief for the Natural Resources project due to the significance of natural resources in many jurisdictions, the growing public concerns for sustainable management of the natural environment, and the lack of explicit accounting guidance on natural resources. The aim of the project is to develop IPSAS guidance relating to the recognition, measurement, display, and disclosure of tangible natural resources by public sector entities in their general purpose financial statements (GPFS). As the project is a financial reporting project, the project brief stated that any resulting IPSAS guidance will be developed in accordance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

BC2. In May 2022, the IPSASB issued the Consultation Paper, *Natural Resources* (CP). The CP discussed the application of the principles in the Conceptual Framework to the accounting for natural resources and set out a number of the IPSASB's overarching preliminary views, as well as preliminary views specific to subsoil resources, water, and living resources.

Development of Exposure Draft 92, *Tangible Natural Resources*

BC3. Respondents to the CP generally agreed with the IPSASB's preliminary views. The IPSASB received comments from indigenous groups indicating that based on indigenous traditions and practices, it may be difficult for any entity to demonstrate control over natural resources. Many respondents also acknowledged that natural resources are likely to only meet the asset recognition criteria in very limited circumstances, while others suggested that it may be more appropriate to report information on natural resources in the broader general purpose financial reports (GPFRs) due to the expected difficulties in recognition.

BC4. In response to this feedback, the IPSASB noted that from a financial reporting perspective, control over natural resources, and the broader issue of whether natural resources can be recognized, should be considered on a case-by-case basis using the recognition and measurement principles in the Conceptual Framework. Based on this reasoning and considering the original aim of the project, the IPSASB decided in March 2023 to proceed with developing this [draft] Standard.

BC5. Due to the similarities between the proposed guidance on the recognition and measurement of natural resources and the potential relevance of guidance regarding assets within the scope of existing IPSAS, the IPSASB considered whether the guidance proposed in this [draft] Standard should be located in a standalone IPSAS or as amendments to existing IPSAS. Having considered the topics that might need to be covered such as assets held for conservation purposes, the IPSASB decided that the proposed guidance on natural resources should be located in a standalone IPSAS in order to address the challenges around recognition of such assets explicitly, for public interest reasons, as well as highlighting the importance of the topic in the public sector and providing guidance in a single place in order to facilitate implementation by preparers.

Focus on Tangible Items

BC6. When the IPSASB developed the project brief and the CP, the IPSASB decided to limit the scope of the project to tangible items for the following reasons:

(a) The feedback from constituents indicated that the development of guidance for tangible natural resources, such as subsoil resources, water, and living resources, was a greater priority than the development of guidance for intangible natural resources, such as the electromagnetic spectrum;

(b) The IPSASB decided that focusing on tangible natural resources alone in this project would be a more efficient use of its staff resources; and

(c) The development of guidance for intangible natural resources would be better accomplished if it was part of a more comprehensive update of the accounting guidance for intangible assets.

BC7. The IPSASB noted that the above reasons continued to be valid when it developed the exposure draft (ED). As a result, the IPSASB decided to limit the focus of the ED to tangible natural resources and named the ED, "[draft] IPSAS [X], (ED 92), *Tangible Natural Resources*".

Scope (paragraphs 3-5)

BC8. The IPSASB noted that some items which could be considered tangible natural resources may have a primary intended use within the scope of another existing IPSAS. The IPSASB therefore decided to exclude such items from the scope of this [draft] Standard to avoid duplication of guidance. Based on this scoping approach, [draft] IPSAS [X] (ED 92) is a residual standard that applies to any items meeting the definition of tangible natural resources which are not within the scope of existing IPSAS.

BC9. The IPSASB also discussed whether this [draft] Standard should include guidance on the accounting and disclosure of natural resource-related obligations and decided that these obligations would be within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. As a result, the IPSASB decided that no additional guidance on such obligations would be provided in this [draft] Standard.

Definitions (paragraphs 6-7)

BC10. When the IPSASB developed the CP, it had proposed to describe a 'natural resource' as an item which:

(a) Is a resource as described in the IPSASB's Conceptual Framework;

(b) Is naturally occurring; and

(c) Is in its natural state.

While the IPSASB noted that the requirement to be in its natural state was necessary to delineate between natural and other resources, respondents to the CP noted that the general description would be difficult to implement due to a lack of clarity on what is in its natural state and what is considered naturally occurring.

BC11. In response to constituents' concerns, the IPSASB decided to develop a definition of 'tangible natural resource' in ED 92 using a top-down approach, starting with the broader concept of 'nature' as defined in other internationally relevant reporting frameworks such as the Taskforce on Nature-

related Financial Disclosures (TNFD) Framework and the United Nation's System of Environmental-Economic Accounting (2012) (UN SEEA) Central Framework.

BC12. These frameworks envisioned nature as a collection of 'environmental assets,' which, at the time ED 92 was developed, were defined as the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity.

BC13. The IPSASB noted that the term 'environmental assets' embodies the same key characteristics of 'natural resources' as described in the CP. However, this term could not be incorporated as it was into IPSAS, as the term 'asset' already has a specific definition in the IPSASB's Conceptual Framework that is not consistent with how it is defined and used in the TNFD or UN SEEA frameworks.

BC14. Furthermore, the concept of providing benefits to humanity is similar to the concept of providing service potential or the capability to generate economic benefits in the IPSASB's Conceptual Framework. However, because the objective of financial reporting using IPSAS is to provide information about an individual entity for accountability and decision-making purposes, the IPSASB decided it would be more appropriate for a tangible natural resource to refer to service potential or the capability to generate economic benefits rather than broadly referring to benefits to humanity.

BC15. Finally, because ED 92 focuses on tangible items only, using the term 'tangible natural resources' rather than 'environmental assets' is another way to highlight the differences from the concepts in the TNFD Framework and the UN SEEA Central Framework. This differentiation will avoid unintended interactions between tangible natural resources in financial reporting under IPSAS and the reporting of naturally occurring items in the sustainability and statistical reporting context. The guidance from the other internationally relevant reporting frameworks could however still be relevant in considering the financial reporting treatment of items that these frameworks classify under the land, freshwater and ocean realms.

BC16. As a result, the IPSASB developed the definition of 'tangible natural resources' in paragraph 6 of [draft] Standard based on the term 'environmental assets' from the TNFD Framework and UN SEEA Central Framework but modified the definition to reflect the conventional nomenclature and objectives of financial reporting under IPSAS.

Recognition (paragraphs 8-11)

BC17. When the IPSASB developed the CP, it included preliminary views indicating that the recognition of tangible natural resources, especially subsoil resources, as assets in GPFS would be challenging due to the definition of an asset, and the asset recognition criteria in the Conceptual Framework, as well as limitations in the technologies currently used to identify, quantify, and establish the existence of certain tangible natural resources.

BC18. As noted in paragraph BC3, the IPSASB decided to proceed with developing this [draft] Standard based on the recognition and measurement principles in the Conceptual Framework. To operationalize the application of the asset recognition criteria to tangible natural resources, the IPSASB looked to the recognition criteria in the IPSAS for other tangible assets, such as IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, and IPSAS 45, *Property, Plant, and Equipment*. The IPSASB noted that most of these standards shared similar recognition criteria regarding the probable flow of future economic benefits or service potential to the entity and the ability to reliably measure the asset. These two criteria were used as a starting point to develop the

recognition criteria for tangible natural resources in paragraph 8 of this [draft] Standard. The IPSASB considered whether the first recognition criterion should be limited only to service potential but noted that as this [draft] Standard can apply to other tangible natural resources in addition to those held for conservation, it would be appropriate to include both economic benefits and service potential.

BC19. The IPSASB also noted that unlike property, plant, and equipment, investment property, or inventories where the determination of control is relatively straight forward when an entity incurs cost to acquire, develop, or construct the asset, the assessment of control for tangible natural resources is more complex and will require the application of judgement to facts and circumstances specific to each resource. As a result, the IPSASB also included the demonstration of control from past events as an explicit recognition criterion for tangible natural resources.

BC20. The IPSASB considered using the term "natural assets" to refer to tangible natural resources which have met the asset recognition criteria. However, this term was already used in the GPFRs of various public sector entities to broadly refer to items which include tangible natural resources, infrastructure developed from tangible natural resources, or ecosystems. The IPSASB also considered using the term "tangible natural resource assets" but noted that some tangible natural resources may meet the definition of an asset and remain unrecognized as they cannot be measured reliably. As a result, this [draft] Standard refers to tangible natural resources which meet the asset recognition criteria as 'recognized tangible natural resources'.

Measurement (paragraphs 12-34)

BC21. To operationalize the principles from IPSAS 46, *Measurement*, and to be consistent with the Standards on other tangible assets such as IPSAS 45, the IPSASB proposed that the measurement of a tangible natural resource at initial recognition should be determined based on whether or not control of the asset was obtained as the result of an event that is a transaction in an orderly market. Tangible natural resources which were recognized as the result of an event that is not a transaction in an orderly market, which could include a non-exchange transaction, would be recognized at their deemed cost (current value). In contrast, resources recognized as the result of an exchange transaction in an orderly market would be recognized at cost.

BC22. The IPSASB noted that it is more likely for a tangible natural resource within the scope of this [draft] Standard to be recognized from an event that is not a transaction in an orderly market, such as non-exchange transactions or the exercise of sovereign powers. In such cases, as there will be no direct cost information available, such assets will need to be initially measured at deemed cost.

BC23. While the acquisition of tangible natural resources in an exchange transaction is possible, such transactions are expected to be rare in the public sector. Based on these observations, the measurement guidance was drafted in a different order to focus on the initial measurement of events which are not a transaction in an orderly market. For clarity and conciseness, the IPSASB also proposed to cross-reference to the guidance on elements of cost and measurement of cost from IPSAS 45, rather than duplicating the guidance in this [draft] Standard.

BC24. For subsequent measurement of recognized tangible natural resources, the IPSASB decided to leverage the subsequent measurement guidance from IPSAS 45 and allow an entity to subsequently measure the asset using either the historical cost model or a current value model, independently of whether it was initially measured at cost or deemed cost.

Depreciation

BC25. The IPSASB noted that the recognized tangible natural resources within the scope of this [draft] Standard are not typically used or consumed in a manner similar to tangible assets within the scope of other IPSAS. As a result, the IPSASB decided to include a rebuttable presumption that recognized tangible natural resources have an indefinite useful life and are typically not depreciated. For a recognized tangible natural resource that clearly has a finite useful life, the guidance on depreciation from IPSAS 45 was incorporated into this [draft] Standard.

Derecognition (paragraphs 35-40)

BC26. The IPSASB decided to leverage the guidance from IPSAS 45 when developing the guidance on the derecognition of tangible natural resources. The IPSASB also considered whether specific guidance on the sale and leaseback of tangible natural resources should be developed but noted that such scenarios are expected to be exceptionally rare in practice. Furthermore, entities can leverage the general guidance on sale and leaseback transactions from IPSAS 43, *Leases*, if such situations do occur, so no specific guidance was needed.

Presentation (paragraphs 41-57)

BC27. The IPSASB decided to incorporate the disclosure proposals for recognized tangible natural resources from the CP, which are broadly consistent with the disclosure requirements from IPSAS 45.

BC28. In addition, when the IPSASB developed the CP, it had also proposed the following financial statement disclosures for unrecognized natural resources to address both the accountability and decision making objectives for financial reporting in the public sector:

(a) Qualitative disclosures for a natural resource which meets the definition of an asset but could not be recognized due to the inability to measure the resource reliably. These disclosures focused on explaining the difficulties in obtaining a reliable measurement and the significance of the natural resource to the delivery of the entity's objectives;

(b) Qualitative disclosures regarding custodial responsibilities relating to a natural resource, regardless of whether the resource is recognized; and

(c) Qualitative disclosures on unrecognized natural resources that do not meet the definition of an asset but is important to an understanding of the entity's finances or delivery of services.

BC29. The IPSASB decided to retain the proposed disclosures noted in paragraph BC28(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC28(b) was also retained, as it relates to potential obligations which are similar in nature to contingent liabilities or potential obligations from pledges, rather than the underlying unrecognized tangible natural resource.

BC30. Respondents to the CP were particularly concerned by the requirements in paragraph BC28(c) and noted that such disclosures in the financial statements would likely not be auditable. As a result, the IPSASB decided to clarify that only information regarding tangible natural resources that meet the definition of an asset is to be disclosed in the financial statements. Items which do not meet the definition of an asset are not covered by any requirements within this [draft] Standard.

Disclosure of Information Regarding Rare or Endangered Tangible Natural Resources

BC31. In some situations, the disclosure of information regarding rare or endangered tangible natural resources may lead to their further endangerment or degradation. For example, disclosing the information on the quantity and location of endangered species may lead to their illegal poaching. To address this concern, the IPSASB decided to allow an entity to limit the disclosure of such information. This approach is similar to IPSAS 19, which has an exemption from disclosing information which may prejudice an entity's position in a dispute with other parties.

Effective Date and Transition (paragraph 58-62)

BC32. The IPSASB noted full retrospective application of this [draft] Standard may lead to some scenarios where an entity would need to account for tangible natural resources which have been derecognized prior to the date of initial application. To provide transitional relief, the IPSASB decided that an entity could elect to apply this [draft] Standard using a modified retrospective approach and only recognize tangible natural resources which meet the asset recognition criteria on the date of initial application. The IPSASB also considered allowing a prospective transition approach but noted that as many tangible natural resources would have been controlled by an entity in historical periods, a large percentage of tangible natural resources would not be recognized if a prospective approach was used. As a result, only the full retrospective or modified retrospective approaches were included in this [draft] Standard.

BC33. The IPSASB initially considered whether this [draft] Standard should be applied together with [draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources*, and [draft] IPSAS [X] (ED 87), *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12). However, as the guidance in these pronouncements is not related from a technical perspective and their application would not impact the implementation of this [draft] Standard, the IPSASB decided it was unnecessary to require the application of this [draft] Standard at the same time as the application of IPSAS 50and the amendments to IPSAS 12.

Application Guidance (Appendix A)

Tangible Natural Resources Held for Conservation

BC34. Based on the broad scoping approach explained in paragraphs BC8-BC9, the IPSASB decided that tangible natural resources held for conservation are only one example of natural resources which could fall within the scope of this [draft] Standard. Based on this decision, the IPSASB decided that the general principles on recognition, measurement, display, and disclosure in this [draft] Standard are applicable to tangible natural resources held for conservation and that a description of what is meant by conservation should be provided in the application guidance rather than introducing a formal definition in the [draft] Standard.

BC35. The IPSASB observed that some tangible natural resources held for conservation could also have the characteristics of heritage assets as described in IPSAS 45. To assist with situations when this potential overlap exists, the IPSASB decided to amend the description of heritage assets in IPSAS 45 to remove the references to environmental and natural features. As a result, tangible natural resources held for conservation which would otherwise also meet the description of heritage assets would fall within the scope of this [draft] Standard.

Identification of Potential Tangible Natural Resources

BC36. In response to the CP, some constituents raised concerns regarding whether it was necessary to perform a detailed exercise to create an inventory of all naturally occurring items in a jurisdiction in order to identify all potential tangible natural resources. These respondents noted that such an exercise would be extremely costly, even if the resulting recognition, measurement, display, and disclosure impact in the GPFS will be minimal. When this [draft] Standard was developed, the IPSASB noted that the definition of tangible natural resources in paragraph 6, along with the related application guidance in paragraph AG9 of the [draft] Standard, will limit the potential tangible natural resources to naturally occurring items that are subject to a detailed management plan demonstrating how such items would provide service potential or generate economic benefits for the entity. In addition, Section B.1 of the Implementation Guidance was developed to explain how an entity can effectively identify all potential tangible natural resources without individually considering each naturally occurring item in the jurisdiction.

Recognition upon Changes in Facts and Circumstances

BC37. The IPSASB noted that a tangible natural resource which was initially not recognized as it could not be reliably measured could subsequently become measurable due to changes in facts and circumstances. The IPSASB considered developing guidance specific to such changes but noted that no additional guidance was required, as such scenarios are already addressed by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. As a result, the IPSASB decided to only include application guidance signposting to IPSAS 3 when such changes in facts and circumstances occur.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

BC38. The IPSASB noted that, in IPSAS 45, the accounting for subsequent expenditures on heritage property, plant, and equipment is driven by whether the subsequent expenditure meets the recognition principles in IPSAS 45, and that this assessment is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. The IPSASB applied the same principle to subsequent expenditures relating to unrecognized tangible natural resources in general and developed the guidance in paragraph AG24.

Subsequent Measurement

BC39. The IPSASB noted that tangible natural resources which are held for financial capacity are typically within the scope of other Standards such as IPSAS 12, IPSAS 44, and IPSAS 45. The IPSASB decided that tangible natural resources within the scope of this [draft] Standard that are held for conservation are not held for their financial capacity. Therefore, if an entity elects to subsequently measure tangible natural resources held for conservation at current value, a current operational value measurement basis should be used.

Amendments to Other IPSAS (Appendix B)

BC40. Based on the [proposed] guidance in this [draft] Standard, the IPSASB decided to amend certain presentation requirements in IPSAS 1, *Presentation of Financial Statements*, the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, as well as certain exemptions in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*. These amendments relate to the presentation of tangible natural resources as a separate line item in the

statement of financial position, excluding tangible natural resources within the scope of this [draft] Standard from the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, and exemptions regarding the recognition and measurement of tangible natural resources in an entity's transitional IPSAS financial statements.

Implementation Guidance and Illustrative Examples

BC41. The IPSASB decided to add implementation guidance and illustrative examples to [draft] IPSAS [X] for topics that are complex and potentially difficult to apply in practice, are an area of concern for constituents, or would benefit from additional non-authoritative guidance.

Alternative View

Alternative View of Ms. Patricia Varela and Mr. Andrew van der Burgh

AV1. Ms. Varela and Mr. van der Burgh disagree with the proposed scope of ED 92 being a residual IPSAS for tangible natural resources. They furthermore consider there is a risk of inappropriate financial reporting for tangible natural resources that may be within the proposed scope of ED 92.

AV2. Their main reasons for disagreeing with the proposals are:

(a) Based on the definition of natural resources as an item which is naturally occurring, they are unable to identify tangible natural resources other than those held for conservation that could be within the scope of ED 92;

(b) Requirements and guidance in ED 92 that are not specific to tangible natural resources held for conservation may lead to inappropriate financial reporting for those resources held for conservation; and

(c) Should ED 92 be applied to resources other than tangible natural resources held for conservation, the requirements and guidance may lead to inappropriate financial reporting.

AV3. Ms. Varela and Mr. van der Burgh therefore consider that the scope of ED 92 should be limited to tangible natural resources held for conservation and the requirements and guidance should be specific to these resources.

The scope should only include tangible natural resources held for conservation

AV4. To date, IPSAS on tangible assets scope items into the IPSAS based on their use and specific characteristics of assets and provide requirements and guidance accordingly. For example:

(a) Assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used for more than one reporting period are within the scope of IPSAS 45, *Property, Plant and Equipment*;

(b) Materials or supplies to be consumed in the production process or in the rendering of services, held for distribution in the ordinary course of operations or in the process of production for sale or distribution are within the scope of IPSAS 12, *Inventories*;

(c) Land and buildings held to earn rentals or capital appreciation, or both are within the scope of IPSAS 16, *Investment Property*; and

(d) Biological assets whose biological transformation is managed for sale, distribution, or conversion into agricultural produce are within the scope of IPSAS 27, *Agriculture*.

AV5. Ms. Varela and Mr. van der Burgh agree requirements and guidance should be provided on tangible natural resources held for conservation in a separate Standard, so that the unique use, characteristics and accounting considerations for these assets can be addressed. Ms. Varela and Mr. van der Burgh furthermore agree that it is necessary to amend the description of heritage assets in IPSAS 45 to remove the references to their "environmental" and "natural" significance, to ensure tangible natural resources held for conservation are not considered heritage assets within the scope of IPSAS 45.

AV6. Ms. Varela and Mr. van der Burgh agree that a natural resource is an item that is naturally occurring. As the entity intends to hold this item in its natural state for future generations, the primary purpose of holding the item is not to generate economic benefits.

AV7. Ms. Varela and Mr. van der Burgh disagree that ED 92 should be a residual standard for other tangible natural resources, because:

(a) To ensure appropriate financial reporting requirements are prescribed, a clear use and characteristics of assets within the scope of the standard should be identified. This is consistent with current IPSAS on assets;

(b) To appropriately apply a residual standard, an entity would need to have a clear understanding and consideration of the scope of the complete suite of IPSAS. This is not consistent with the scoping approach used in other IPSAS;

(c) They are unable to identify tangible resources that are not in the scope of existing IPSAS, other than tangible natural resources held for conservation (after the amendment to the heritage assets description as explained in paragraph AV5).

For these reasons, Ms. Varela and Mr. van der Burgh consider the scope of ED 92 should be limited to tangible natural resources held for conservation.

ED 92 may lead to inappropriate financial reporting for tangible natural resources held for conservation

AV8. Ms. Varela and Mr. van der Burgh consider that ED 92 should provide specific requirements for tangible natural resources held for conservation.

AV9. They consider that holding tangible natural resources for conservation implies that the items are primarily not held to generate economic benefits. For example, an entity that controls a tangible natural resource held for conservation does not intend to explore and sell the asset. Therefore, tangible natural resources held for conservation are assets that are held for operational capacity. The appropriate current value measurement basis for assets held for their operational capacity is current operational value. Fair value would be an inappropriate measurement basis for tangible natural resources held for conservation as it provides information about an asset's financial capacity and is exit based.

AV10. ED 92 includes requirements and guidance for assets held for financial capacity measured at fair value and assets held for operational capacity measured at current operational value (see paragraphs 18 and 54). Ms. Varela and Mr. van der Burgh consider ED 92 should only include requirements and guidance for assets held for operational capacity measured at current operational value.

AV11. They furthermore consider that requirements and guidance specific to tangible natural resources held for conservation should be in ED 92, and cross references to guidance in IPSAS 45 are not appropriate in all instances. For example, ED 92 paragraph 15 refers to the principles in IPSAS 45 on elements of cost and measurement of cost, and ED 92 paragraph 54 refers to the disclosure requirements in IPSAS 45 for current value.

ED 92 may lead to inappropriate financial reporting for resources other than tangible natural resources held for conservation

AV12. Ms. Varela and Mr. van der Burgh consider there is a risk that the requirements and guidance in ED 92 may be inappropriate for tangible resources other than natural resources held for

conservation that the ED may be applied to. Without knowing what the use and specific characteristics of the potential other assets in the scope of the ED are, there is a risk that the requirements and guidance developed in ED 92 do not adequately address these other assets or may result in inappropriate financial reporting. The following examples show the need for requirements to be specific to the types of assets in the ED:

(a) ED 92 paragraph 23 includes a rebuttable presumption that recognized tangible natural resources within the scope of ED 92 have indefinite useful lives as these resources are typically not used or consumed like tangible assets within the scope of other IPSAS. There is therefore a rebuttable presumption that assets in the scope of ED 92 are not depreciated;

(b) Without identifying the other assets within the scope of ED 92, the accounting policy choice between the historical cost model and the current value model in paragraph 16 of ED 92 may lead to unintended consequences or inappropriate financial reporting; and

(c) ED 92 paragraphs 55-57 require the disclosure of specific information relating to tangible natural resources that are not recognized as no reliable measure is available. The requirements may not be useful for assets that are held for purposes other than conservation.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 92).

Section A: Scope

A.1 Determination of Whether a Tangible Natural Resource Falls Within the Scope of [Draft] IPSAS [X] or Another IPSAS (Paragraphs 3-5)

When might items meeting the definition of a tangible natural resource be accounted for under [draft] IPSAS [X] (ED 92), and when might they be accounted for under another IPSAS?

IG1. [Draft] IPSAS [X] (ED 92) defines a tangible natural resource as a naturally occurring item which embodies service potential, the capability to generate economic benefits, or both. Once an entity has concluded that an item meets this definition, the entity will need to assess if the tangible natural resource is accounted for within the scope of [draft] IPSAS [X] or another IPSAS.

IG2. The determination of which Standard is applicable is driven by the entity's primary intended purpose for holding the item. This assessment of the entity's intended reason for holding an asset is the same as the scoping assessment that is done for all other IPSAS on tangible assets. In accordance with the scoping requirements of [Draft] IPSAS [X] (ED 92), only items which meet the definition of a tangible natural resource and do not fall within the scope of the Standards noted in paragraphs 3-4 are within the scope of [draft] IPSAS [X] (ED 92).

IG3. The following scenarios illustrate this assessment:

(a) If an entity concludes that it could recognize the water held in a controlled environment as an asset and intends to sell this water, the asset is accounted as inventory within the scope of IPSAS 12, *Inventories*. This is because materials or supplies to be consumed in the production process or in the rendering of services or items held for distribution in the ordinary course of operations or in the process of production for sale or distribution, meet the definition of inventories in IPSAS 12, regardless of whether or not they are naturally occurring;

(b) An entity controlling a population of trees could manage their biological transformation with the intention of harvesting and selling the mature trees as lumber. In this scenario, the trees are considered biological assets within the scope of IPSAS 27, *Agriculture*. In some situations, an entity may decide to sell only a specific portion of the trees as lumber and use the remainder for other purposes. In this case, the entity will need to assess whether the population consists of multiple units of account and apply the scoping requirements to each unit. See paragraphs AG17-AG21 and Implementation Guidance C.3 for additional information regarding the unit of account;

(c) A public sector entity could control a forest and enact legislation to restrict access to the area and prohibits the use of resources from the forest. The intention of the legislation is to conserve the forest by minimizing the impact of human activity on fauna and flora in the area. As a result of the legislation, the primary intended purpose of holding the forest is not to be used as an item within the scope of IPSAS 45, *Property, Plant, and Equipment*, not to be sold as inventory or agricultural products, and not to be managed to earn rental income or for capital appreciation. The entity concludes that this forest is a tangible natural resource within the scope of [draft] IPSAS [X] (ED 92) by applying the requirements in paragraphs 3-4; and

(d) An entity may have the intention to conserve a tangible natural resource without any legislation in place to restrict access to the resource or its use. In these situations, the tangible natural resources may be primarily held for conservation purposes but could also be used to provide ancillary services. For example, a forested area that is primarily held for conservation may also be used as a park for the benefit of visitors on a limited basis. To determine whether to apply [draft] IPSAS [X] (ED 92) or another IPSAS, the entity would need to exercise judgment to determine whether the tangible natural resource is held primarily for conservation. See Implementation Guidance C.4 on conservation for more details. If a specific region of the forested area is set aside for use by visitors, the entity should assess whether there are multiple units of account. See paragraphs AG17-AG21 and Implementation Guidance C.3 on unit of account for more details.

Section B: Definitions

B.1 Identification of Natural Resources (Paragraphs 6 and AG9)

Does an entity applying [draft] IPSAS [X] (ED 92) need to consider whether all tangible naturally occurring items within its jurisdiction are tangible natural resources within the scope of this [draft] IPSAS?

IG4. No. It is unlikely that all tangible naturally occurring items within a jurisdiction would meet the asset recognition criteria, as they are unlikely to be resources if they are not actively managed. To meet the definition of a tangible natural resource in paragraph 6 of [draft] IPSAS [X] (ED 92), a naturally occurring item must embody service potential, the capability to generate economic benefits, or both. As explained in paragraph AG9 of [draft] IPSAS [X] (ED 92), this criterion is typically satisfied when an entity has a plan demonstrating how the naturally occurring item can provide service potential or generate economic benefits, and whether the entity will obtain the resources necessary to carry out this plan. Therefore, one acceptable approach to ensure that the analysis of potential tangible natural resources is complete is to consider programs relating to naturally occurring items. By focusing on such programs, an entity is not required to individually analyze each naturally occurring item within its jurisdiction.

Section C: Recognition

C.1 Determination of Control (Paragraphs AG12-AG14)

What key considerations should an entity consider when assessing whether they control certain types of tangible natural resources such as water and living resources?

IG5. In general, the control of a tangible natural resource can be assessed based on the indicators listed in paragraph AG13 of [draft] IPSAS [X] (ED 92). Sometimes, a tangible natural resource may consist of multiple units of account due to the different nature and risks associated with the specific parts of the resource, as well as the objectives for which an entity holds the resource. In such cases, the assessment of control is performed separately for each unit of account.

IG6. Some entities may have the objective of conserving a tangible natural resource, and this is accomplished by prohibiting or restricting the use of the resource rather than using it in a manner like how other tangible assets are conventionally used. Implementation Guidance C.4 provides more information on how conservation can provide service potential to an entity.

IG7. For a tangible natural resource, the indicators of control are often directly impacted by the nature of the resource, as well as laws and regulations that are specific to the resource. The following discussion highlights some of the more prevalent factors that should be considered when assessing control over water and living resources:

Water

IG8. Generally, the physical movement of free-flowing water such as oceans, seas, lakes, and rivers cannot feasibly be controlled. Therefore, it is unlikely that an entity is able to demonstrate control over these bodies of water.

IG9. Water that is physically housed in a managed environment could potentially be controlled. For example, some underground aquifers located in a jurisdiction can act as naturally occurring reservoirs holding ground water. An entity could demonstrate control over the water in such aquifers when:

(a) The entity has legal ownership of the aquifer and its contents in accordance with the applicable laws and regulations, and such legal ownership confers enforceable rights to the service potential embodied in the water;

(b) The entity has the means to manage the volume of water actively to ensure that it is available for meeting the entity's objectives. This is typically achieved by having an appropriate structure to house the water and control its flow; and

(c) The entity can restrict others from accessing to the water. Such restrictions can consist of physical barriers such as fences, legislative mechanisms which legally prohibit other parties from access, the use of security personnel to prevent unauthorized access to the water, or a combination of the above.

Living Resources

IG10. Depending on the applicable laws and regulations, a public sector entity may have legal ownership of the living resources located within its jurisdiction, and such legal ownership could lead to an enforceable right to the service potential embodied in the resources. However, this assessment is not always straightforward. An entity may have difficulties demonstrating control over living resources that can move about, such as fish and animals, without some means to limit their movement to an area that is controlled by the entity. For example, even with physical barriers in place, it may not be feasible to effectively control the movements of certain animals. Since these animals can freely roam out of the areas controlled by an entity into neighboring jurisdictions, it would be difficult for any entity to assert control. In contrast, it is generally easier to demonstrate control over plants, as these resources cannot relocate on their own.

IG11. Control over living resources also requires the ability to prevent others from accessing the resource. Like water, restricting access to living resources can be implemented through physical means such as barriers and fences, legislation prohibiting the use of the living resource, using security personnel to guard the living resources, or a combination of the above.

IG12. An entity's ability to direct the use or disposal of a living resource in a manner it sees fit is a strong indicator of control. In the most extreme case, the unfettered ability to sell a living resource for cash or other resources would be a strong indicator of control over the resource. Similarly, the ability to freely harvest a living resource for one's own use or for sale is another strong indicator of control. However, in these scenarios, an entity should carefully consider whether these living resources are

within the scope of [draft] IPSAS [X] (ED 92), as items that are used in production or held for sale are likely considered inventory within the scope of IPSAS 12 or biological assets within the scope of IPSAS 27.

C.2 Difficulties in the Recognition of Subsoil Resources (Paragraph AG10)

Is the existence of a program to extract mineral deposits sufficient to recognize the unextracted minerals as assets in the financial statements?

IG13. Generally, no. As noted in paragraph AG10, for some naturally occurring items, there will be uncertainty over the existence, quantity, and quality of the item until it is extracted, and this uncertainty impacts whether the item can be considered a resource. Because subsoil items such as minerals or petroleum deposits are usually located deep underground, an entity is unlikely to be able to establish the existence, quantities, and quality of these items with a degree of certainty needed for recognition prior to their extraction. Even if an entity has obtained detailed geological studies to estimate the deposits, or if the entity has established a program to issue exploration and mining licenses, there is typically a high degree of uncertainty and variability which impedes the entity's ability to recognize the unextracted deposits as assets.

C.3 Unit of Account (Paragraphs AG17-AG21)

How should the unit of account for a tangible natural resource be determined?

IG14. Paragraph 11 of [draft] IPSAS [X] (ED 92) requires an entity to consider whether a tangible natural resource should be disaggregated into separate units of account or whether individual tangible natural resources should be aggregated into one unit of account. In addition, paragraphs AG17-AG21 provide guidance on the factors to consider when determining the appropriate unit of account. Once an entity has determined the appropriate unit of account for a tangible natural resource, the scoping, recognition, and measurement requirements are applied separately to each unit of account.

IG15. While the physical characteristics of a tangible natural resource may have some impact on the appropriate determination of a unit of account, the key determining factor is typically the entity's intended reason for holding the resource. As noted in paragraph AG19, components of the same tangible natural resource that are held for different reasons and managed separately are typically separate units of account. In contrast, it may be appropriate for physically distinct items which are held for the same reasons and managed together to be grouped into one unit of account.

IG16. The determination of the appropriate unit of account requires the application of judgment and depends on the facts and circumstances specific to each tangible natural resource. In some cases, a tangible natural resource may consist of multiple units of account that are each accounted for within different Standards. In other cases, some units of account may meet the asset recognition criteria while others remain unrecognized. Because of these significantly different potential outcomes, the determination of the appropriate unit of account is critical when accounting for tangible natural resources.

C.4 Conservation (Paragraphs 5 and AG4-AG7)

How is conservation different from the uses of tangible assets within the scope of other IPSAS?

IG17. Paragraph AG4 of [draft] IPSAS [X] (ED 92) describes conservation as the act of managing and protecting a tangible natural resource from degradation. While this description does not prescribe the reasons for conservation, tangible natural resources are often conserved for the benefit of future generations. Typically, an item held for conservation will not directly provide economic benefits to the entity but could nevertheless meet the asset recognition criteria. This is because in the public sector, assets are often held for their service potential rather than their capability to generate cash flows. Therefore, if a public sector entity has the objective of conserving a tangible natural resource for the public or its citizens, the act of conservation is achieving this objective.

IG18. Conservation is distinct from the uses of tangible assets within the scope of other IPSAS, as these other Standards typically address the immediate or near-term use of an asset to provide service potential or economic benefits to the entity. In addition, these other uses often lead to the consumption of an asset, whereas conservation usually involves avoiding or limiting the use of a resource in a way which leads to their consumption.

IG19. An entity is required to exercise judgement to determine whether a tangible natural resource is held for conservation. As noted in Implementation Guidance A.1, there may be situations where clear legislation is in place to conserve a tangible natural resource by restricting its use. In other situations, a tangible natural resource could be held for conservation and also be used to provide ancillary services.

IG20. Without clear legislation, it may be necessary to analyze the details of the relevant conservation program to determine whether a tangible natural resource is held primary for conservation. Some factors to consider include:

(a) The intended purpose of the conservation program: The specification to protect a particular resource, such as a particular species or group of species, is a strong indicator that the tangible natural resource is held for conservation. In contrast, programs which are more concerned with enhancing or promoting the use of a resource, such as the maintenance of green spaces to attract more visitors, may indicate that conservation is not the primary objective;

(b) The nature and intent of program activities: Conservation activities will vary depending on the facts and circumstances for each resource. For some mature tangible natural resources, a conservation program may simply focus on limiting the impact of human activities on the resource. In other situations, an entity may need to perform activities such providing feed or treatment for diseases to actively prevent the degradation of a resource. Regardless of the specific activities, those which are performed to maintain the state of a tangible natural resource are indicative of conservation; and

(c) The existence of a significant profit element: Some tangible natural resources held for conservation may be used to earn ancillary revenues to partially recover the costs of maintaining the resource. However, in some situations, a tangible natural resource may be managed to earn a profit. A program which primarily focuses on the generation of revenues or profits may indicate that the tangible natural resource is not primarily held for conservation.

C.5 Subsequent Expenditures Incurred to Conserve a Tangible Natural Resources (Paragraphs 8, AG11, and AG22-AG24)

How should an entity account for subsequent expenditures incurred to conserve a tangible natural resource?

IG21. The recognition principle in paragraph 8 of [draft] IPSAS [X] (ED 92) is applicable to the expenditures incurred for conservation activities. The resulting accounting is consistent with the accounting for subsequent expenditures relating to property, plant, and equipment in IPSAS 45 because:

(a) Expenditures which are incurred to maintain the current state of a tangible natural resource are similar to maintenance expenses for property, plant, and equipment. These expenditures are therefore recognized as expenses in surplus or deficit as incurred; and

(b) In contrast, expenditures that result in incremental service potential are recognized as an asset based on the recognition principle in paragraph 8. Depending on the nature of the expenditure, it could result in an increase to the carrying amount of the recognized tangible natural resource, similar to additions in IPSAS 45, or in the recognition of a separate asset. For example, an entity may incur costs to treat the soil in a forest held for conservation to significantly improve its growth. As this treatment leads to incremental increases in service potential, the costs incurred may be capitalized as an asset, regardless of whether the underlying forest was recognized.

C.6 Change in Primary Use (Paragraphs 39-40)

How would an entity account for land that is subject to "rewilding"?

IG22. "Rewilding" is the act of limiting human influence in an area with the aim of restoring the naturally occurring processes and biodiversity in that environment. In general, a change in an entity's primary intended reason for holding a tangible natural resource may lead to a change in which IPSAS is applicable to the resource. See paragraphs 39-40 on Reclassification for details. In the context of rewilding land, such a change may occur when there is evidence that an entity has ceased to use the land as an investment property or property, plant, and equipment. A change in use may be evidenced by events such as ending the occupation or use of the land, termination of a lease of the property to another party, or the removal of structures on the land. The assessment of whether a change in use has occurred is similar to the assessment of transfers of property, plant, and equipment to or from investment property, as described in paragraph 66 of IPSAS 16.

IG23. Consistent with transfers of property, plant, and equipment to or from investment property, the net carrying amount of the land then becomes the carrying amount of the tangible natural resource within the scope of [draft] IPSAS [X] (ED 92) upon the change in use. In some cases, an entity may begin to use a tangible natural resource in a manner which places it within the scope of another IPSAS, such as inventory within the scope of IPSAS 12 or a biological asset within the scope of IPSAS 27. In these situations, the entity applies the guidance on reclassification in paragraphs 39-40 of [draft] IPSAS [X] (ED 92).

IG24. The entity should also consider if a change in use meets one of the indicators of impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*.

Section D: Measurement

D.1 Determination of Current Operational Value (Paragraphs 12, 18-22 and AG25-AG30)

How would an entity determine current operational value for a tangible natural resource within the scope of [draft] IPSAS [X]?

IG25. In general, current operational value (COV) can be measured using a market approach or a cost approach. The use of a market approach does not necessarily result in a fair value measurement, as market prices can be used to estimate an asset's entry price.

IG26. For tangible natural resources held for their operational capacity, an active market with transactions involving an identical asset may not be available. However, an entity could still apply the market approach by using the price from an orderly transaction involving a similar asset. For example, an entity holding a forest for conservation may estimate its COV using an appraisal value of a similar land and adjusting the value for specific differences in characteristics that may impact its service potential, such as differences in the size of the forested area or restrictions in how the forested area can be used.

IG27. If an active market for similar assets does not exist, an entity could also estimate COV using a cost approach by estimating the cost of developing a similar asset. Continuing with the forest example, the entity could estimate the forest's COV by accumulating the estimated costs of acquiring, planting, and growing saplings into mature trees, as well as the value of the land if it is not a separate unit of account.

D.2 Inability to Reliably Measure Current Value (Paragraph 10)

When may an entity conclude that the current value of a tangible natural resource cannot be reliably measured?

IG28. The use of estimates is an essential part of the accrual basis of accounting, and there will often be uncertainty associated with the measurement of a tangible natural resource. In some situations, the level of uncertainty in an estimate is so large that the relevance and faithful representativeness of a measure is questionable, even if disclosures are provided to explain the estimation techniques applied by the entity. Under these circumstances, the current value of the tangible natural resource cannot be reliably measured.

IG29. The following factors may indicate that a tangible natural resource cannot be reliably measured:

(a) There is a significantly wide range of values that could be reasonable;

(b) There is no reasonable way to assess the probabilities of various estimates; or

(c) There is no reasonable methodology or observable inputs available to measure the resource.

Section E: Display and Disclosure

E.1 Grouping of Disclosures (Paragraphs 43-57 and AG33-AG34)

Do IPSAS require an entity to provide all disclosures that relate to items which meet the definition of a tangible natural resource in one note, even when they are within the scope of other IPSAS?

IG30. IPSAS generally neither require nor prohibit an entity from grouping the disclosures of tangible natural resources within the scope of this and other IPSAS into a single note. If an entity decides

to group the disclosures, it needs to ensure that this grouping does not obscure the information presented. This is typically accomplished by reconciling the information disclosed in the note with the amounts that are included in the various financial statement captions which contain tangible natural resources.

IG31. The decision to group the disclosures of tangible natural resources together will depend on the entity's judgement on whether this results in more useful information for users of the financial statements compared to the potential costs of reorganizing the notes. When making this decision, the entity should consider the aggregation and disaggregation principles in IPSAS 1, *Presentation of Financial Statements*, as well as the requirements in IPSAS 18, *Segment Reporting*.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED 92).

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, to particular natural resources on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 92).

Scope

IE2. Examples 1-2 illustrate the application of paragraphs 3-5 of [draft] IPSAS [X] (ED 92) on the scope of the [draft] Standard.

Example 1: Accounting for Physically Similar Assets that Have Different Uses

IE3. A public sector entity controls two regions of forested land in its jurisdiction, Region A and Region B. Both regions have similar physical characteristics and were initially uncultivated forests containing the same species of flora and fauna. There is no legislation that explicitly dictates how Regions A and B are to be used, but the regions are managed in accordance with different programs that have been created by the entity.

IE4. In accordance with the entity's program, Region A is opened to visitors. Parts of Region A have been landscaped or cleared to create hiking paths and campgrounds within the area, and some of the vegetation in the region has also been replaced with species that are deemed to have higher aesthetic value or are safer for visitors. Visitors can pay a nominal fee to reserve a specific campground, but they can enter and use the campgrounds for free without a reservation. In addition, the entity has hired a team of security personnel to manage the campground operations.

IE5. In contrast, the entity has announced to the public that Region B is a reserve and constructed fencing to limit human access to the area. Unlike Region A, the flora and fauna in Region B have been left in their natural state. While the entity has also hired a team of security personnel to patrol Region B, this security team has been instructed to deter individuals from trespassing into the region.

IE6. Based on the facts presented in paragraphs IE3-IE5, the entity concludes that Region A and Region B are held for different reasons and intended uses despite the fact that both regions initially had similar physical characteristics. The entity notes that Region A is used to provide services as the area is open for use by the public for camping and hiking, and this use is consistent with definition of property, plant, and equipment—i.e., Region A is a tangible asset that is used in the production or supply of goods or services and is expected to be used during more than one reporting period. This assessment is not impacted by the fact that these services are provided to the public for free. As a result, the entity concludes that Region A is within the scope of IPSAS 45, *Property, Plant and Equipment*.

IE7. The entity also observes that, regardless of whether the restrictions on the access and use of Region B are self-imposed, the facts and circumstance support the conclusion that the primary reason for holding the asset is for conservation rather than a use that would place it within the

scope of IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, or IPSAS 45. As a result, the entity concludes that Region B is within the scope of [draft] IPSAS [X] (ED 92).

Example 2: Costs to Develop Natural Spaces

IE8. A government entity has a "Rain Garden Program" in place to develop natural spaces in urban areas. These "rain gardens" are green spaces consisting of planted trees and other vegetation which help reduce the risk of flooding in the area and are considered more desirable than traditional constructed infrastructure such as dikes and reservoirs.

IE9. Because these rain gardens accomplish the same objectives as constructed infrastructure, the government entity concludes that they are considered property, plant, and equipment within the scope of IPSAS 45. This assessment is separate from the consideration of whether the land on which the rain garden is located is an asset.

IE10. In some jurisdictions, the developed natural spaces such as the rain gardens in this example may be referred to as "modified natural assets", "enhanced natural assets", or "green infrastructure". Regardless, the assessment of which IPSAS to apply is based on the entity's primary intended use of the item.

Disclosure of Unrecognized Tangible Natural Resources

IE11. Example 3 illustrates the application of paragraphs 10 and 55 of [draft] IPSAS [X] (ED 92) on the disclosure of a tangible natural resource which meets the definition of an asset but is not recognized as it cannot be reliably measured.

Example 3: Unused Publicly Owned Land

IE12. A public sector entity obtains control of a plot of land in an uninhabited area through the exercise of its sovereign powers. Due to its remote location, the entity concludes that it will not use the land as property, plant, and equipment, hold it as an investment property for capital appreciation, or sell the land in the ordinary course of operations as inventory. However, the entity plans to conserve the habitats in the area and concludes that the land meets the definition of an asset. Based on these facts, the entity concludes that the plot of land is within the scope of [draft] IPSAS [X] (ED 92) and should be initially measured at its deemed cost (current value) in accordance with paragraph 12.

IE13. To determine the current value of the land, the entity retained a number of valuation specialists to assist in the estimation process. Due to the remote location of the land, the entity and the valuation specialists agreed that there is no reasonable basis on which to measure the land's current value.

IE14. As a result, the entity concludes that the plot of land is an asset that cannot be reliably measured. Therefore, the entity applies the disclosure requirements in paragraph 55 of [draft] IPSAS [X] (ED 92) and discloses:

(a) The location and physical characteristics of the land;

(b) An explanation of the difficulties in obtaining a reliable measurement of the land's current value; and

(c) The significance of the land in relation to the delivery of the entity's objectives.

IE15. If the land was not held for conservation, and it was not possible to use it as property, plant and equipment, investment property, or inventory, the entity would likely conclude that the land is not a resource, as it does not embody service potential or the capability to generate economic benefits. If that is the case, the land would not meet the definition of an asset and the disclosures in paragraph 55 would not be applicable.

Transition

IE16. Example 4 illustrates the potential similarities and differences resulting from the application of [draft] IPSAS [X] (ED 92) using the modified retrospective transition approach and the full retrospective approach.

Example 4: Differences Between the Modified Retrospective and Full Retrospective Transition Methods

(Note: To isolate the impact of the transactional provisions, this example assumes that other than the events or transactions specified below, there are no other transactions within the entity.)

IE17. A central government entity with a December 31 year-end applies [draft] IPSAS [X] (ED 92) in year 20X4. The entity has elected to use the historical cost model in the subsequent measurement of tangible natural resources and concluded that the resource in question has an indefinite useful life—i.e., it should not be depreciated.

IE18. When the country's constitution was established many years ago, the entity obtained control over a significant tangible natural resource in its jurisdiction (Resource A). At the time, Resource A's current value was CU 50 million. However, the entity did not consider recognition of an asset, as their accounting framework at the time did not have explicit guidance on the recognition of tangible natural resources.

Case A – The Central Government Continues to Control the Resource on the Date of Initial Application

IE19. Since 20X2, the current value of Resource A has increased to CU 70 million. The entity has continued to control Resource A throughout 20X2 to 20X4.

IE20. The entity considered the transitional requirements in paragraph 60 of [draft] IPSAS [X] (ED 92) and noted the following.

Modified Retrospective Approach (Paragraph 60(a))

IE21. Applying the guidance in paragraph 61, the date of initial application for the modified retrospective approach is January 1, 20X4. The modified retrospective approach requires the recognition of any tangible natural resources that are controlled by an entity on the date of initial application at their current value. The cumulative effect of initially applying [draft] IPSAS [X] (ED 92) is recognized as an adjustment to opening accumulated surpluses or deficits.

IE22. As a result, the entity recognizes Resource A as an asset at CU 70 million on January 1, 20X4 and adjusts its opening accumulated surpluses or deficits by CU 70 million.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors *(Paragraph 60(b))*

IE23. If the entity applies [draft] IPSAS [X] (ED 92) in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained. This approach would result in the following:

(a) Resource A would be recognized as an asset of CU 50 million upon the establishment of the country's constitution; and

(b) Because the entity elected to subsequently measure tangible natural resources using the historical cost model, on the date of initial application, Resource A would not be adjusted to CU 70 million. The recognized asset and the opening accumulated surpluses or deficits would remain at CU 50 million.

Case B - Resource was Sold Prior to the Date of Initial Application

IE24. In this case, the example facts outlined in paragraphs IE18-IE18 continue to be applicable. However, during 20X2, the entity classified the Resource A as an asset held for sale and sold it for cash consideration of CU 70 million. As the resource was previously unrecognized, there were no carrying amount to offset the consideration received, and the sale resulted in a gain of CU 70 million.

IE25. Prior to the application of [draft] IPSAS [X] (ED 92), the entity's statement of financial position as at the December 31, 20X2 would have consisted of cash and accumulated surpluses or deficits of CU 70 million.

IE26. The entity considered the transitional requirements in paragraph 60 of [draft] IPSAS [X] (ED 92).

Modified Retrospective Approach (Paragraph 60(a))

IE27. The modified retrospective approach does not require the reconsideration of any tangible natural resources that were no longer controlled on the date of initial application (January 1, 20X4). As a result, the entity does not need to make any adjustments to its opening statement of financial position.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors *(Paragraph 60(b))*

IE28. If the entity applies [draft] IPSAS [X] (ED 92) in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained and its subsequent sale in year 20X2. This approach would result in the following:

(a) Resource A would have been recognized as an asset valued at CU 50 million back when the country's constitution was established. Since the 20X4 financial statements only include comparative information for the 20X3 year, this CU 50 million adjustment will only be reflected in the 20X3 opening accumulated surpluses or deficits;

(b) In year 20X2, the sale of Resource A would have resulted in a gain of only CU 20 million (CU 70 million cash consideration less Resource A's carrying amount of CU 50 million). Since the entity is only presenting comparative information for the 20X3 year, this CU 20 million gain will only be reflected in the opening accumulated surpluses or deficits in the 20X3 financial statements; and

(c) Although the gain in year 20X2 is different from the gain recognized before the application of [draft] IPSAS [X] (ED 92), it should be noted that the accumulated surpluses or deficits on January 1, 20X3 continue to the CU 70 million (consisting of CU 50 million from the initial recognition of Resource A and the gain of CU 20 million from the sale of the resource).

Comparison with GFS

In developing [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under [draft] IPSAS [X] (ED 92) and GFS will depend on the facts and circumstances of the tangible natural resource.
- [Draft] IPSAS [X] (ED 92) only provides guidance on tangible natural resources, while GFS provides guidance on broader types of natural resources.
- Under [draft] IPSAS [X] (ED 92), the recognition of a tangible natural resource as an asset is based on control. Under GFS, the recognition of assets is based on economic ownership.
- [Draft] IPSAS [X] (ED 92) initially measures tangible natural resources at deemed cost or cost depending on whether recognition resulted from a transaction in an orderly market. Under GFS, natural resources are measured at market prices.
- After initial recognition, [draft] IPSAS [X] (ED 92) provides entities with an accounting policy option to measure tangible natural resources at historical cost or at current values. Under GFS, naturally occurring resources are subsequently measured at market prices. This measurement approach may align with current values under IPSAS in some circumstances.
- [Draft] IPSAS [X] (ED 92) includes disclosure requirements that are not present in GFS memorandum items.

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XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 6.1

Memorandum

Date:	5 February 2025
To:	NZASB Members
From:	Nimash Bhikha
Subject:	Provisions – Targeted Improvements – Comment letter

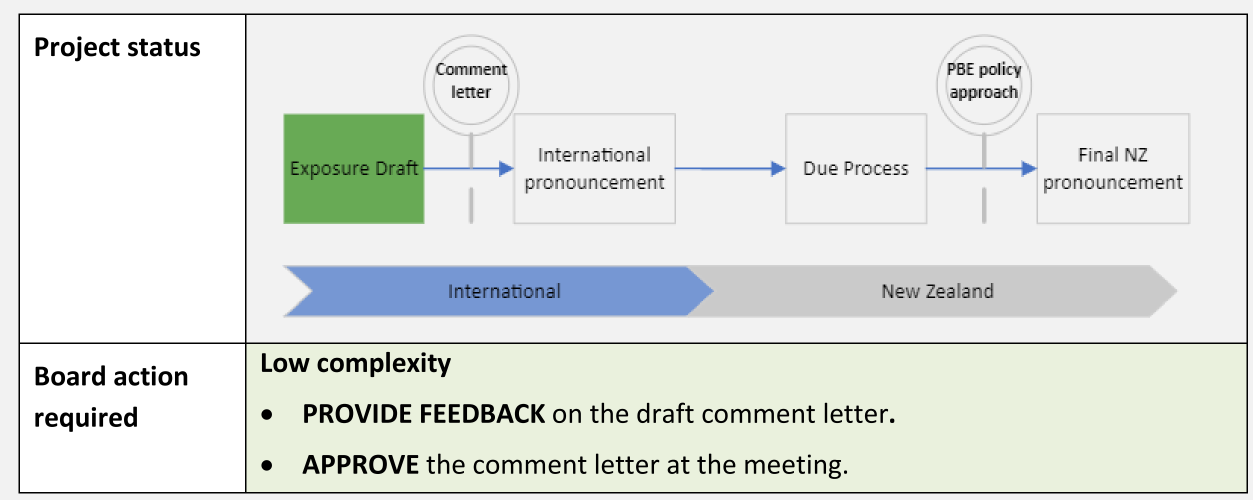
COVER SHEET

Project overview

Project purpose	<u>IASB perspective:</u> To develop proposals to clarify targeted requirements within IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, to provide investors with better information about provisions. The proposed amendments clarify how companies assess when to record provisions and how to measure them. <u>XRB perspective:</u> To consider if the proposals contained in the forthcoming IASB ED appropriately address issues faced by NZ stakeholders and if there are unintended consequences arising from these proposals.
Cost/benefit considerations	In consulting on the IASB ED, we sought stakeholders' views on whether the proposed amendments depart from current accounting practices, which in turn could result in additional costs/ benefits to be incurred. This informed our feedback to the IASB.
Project priority	**Medium** These proposals update certain concepts of accounting – such as the definition and recognition criteria for liabilities – which may impact on entities' current processes and judgement-making, particularly for certain types of provisions. This is not considered to be a high priority, as the proposals focus on clarification and improvement, rather than fundamental changes.

Overview of agenda item

Project status



Board action required	**Low complexity** • **PROVIDE FEEDBACK** on the draft comment letter. • **APPROVE** the comment letter at the meeting.

Purpose and introduction[1]

1. The International Accounting Standards Board (IASB) has released an Exposure Draft (ED) *Provisions – Targeted Improvement Proposed Amendments to IAS 37.*

2. At its December 2024 meeting, the Board agreed to comment on the ED.

3. The purpose of this item is to seek the Board's feedback on the draft comment letter ahead of the NZASB meeting, and to seek the Board's approval of the comment letter at the meeting. The comment letter is due to the IASB by Wednesday 12 March 2025.

Recommendations

4. We recommend the Board:

   (a) **PROVIDES FEEDBACK** on the draft comment letter; and

   (b) **DISCUSS** any relevant matters and **APPROVE** the comment letter at the NZASB meeting on 20 February 2025.

Structure of this memo

5. This memo includes following sections.

   (a) Background

   (b) Outreach summary

   (c) Draft comment letter and next steps

Background

6. On 12 November 2024, the IASB published the Exposure Draft, Guidance on implementing IAS 37 and the accompanying Basis for Conclusions.

7. Investors seek transparent and comparable information about companies' provisions for assessing future cash flows and financial positions. The IASB's targeted improvements would help companies apply the requirements more consistently and provide investors with more useful information.

8. The targeted improvements primarily include:

   - Updates to the definition of a liability;
   - Clarifications and disentanglement of supporting requirements, including 'present obligation' and 'past event' recognition criterion;
   - Explanations around when an entity should recognise provisions for obligations which could avoided through future actions;

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[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).

- New requirements for recognising provisions around threshold-triggered costs;
- Clarification around whether discount rates reflect non-performance risk; and
- Guidance on which costs to include in the measurement of a provision.

9. The IASB started to develop the amendments at a conceptual level, by aligning the definition of a liability and supporting concepts, to the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) updated in 2018.

Outreach summary

10. Our outreach activities in relation to the IASB/ED/2024/8 included the following:
    (a) Raising awareness of the ED via the XRB's 'Accounting Alert';
    (b) Publishing the ED on the XRB's website and inviting comments from interested stakeholders; and
    (c) Given the targeted nature of the proposals, we shared our draft comment letter with the Technical Reference Group (TRG) offline and have incorporated their feedback into the comment letter.

11. The XRB's consultation period for New Zealand stakeholders ran from Wednesday 13 November 2024 through to Monday 3 February 2025. We did not receive any submissions on the ED.

12. We are planning to attend a roundtable organised by the CPA Australia and CA ANZ, which will mainly include attendees from New Zealand and Australian accounting firms on Thursday 13 February 2025. A verbal update of the key messages from this roundtable, and any potential changes to the draft comment letter, will be provided to the Board during the meeting.

Draft comment letter and next steps

13. The draft comment letter is attached as Agenda Item 6.2.

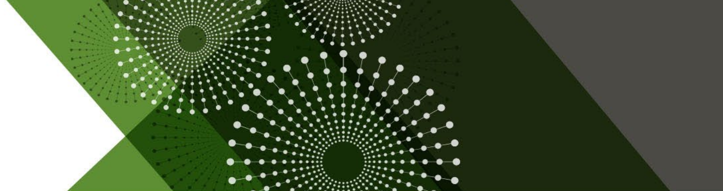
14. The response date to the IASB by Wednesday 12 March 2025 (before the next NZASB meeting in April 2025). We kindly request that Board Members provide their comments on the draft comment letter to Nimash Bhikha.

15. We will endeavour to update the comment letter in response to feedback before the Board meeting and will ask the Board to approve the letter at the meeting.

Questions for the Board:

Q1. Does the Board have any **FEEDBACK** on the draft comment letter?

Q2. Does the Board **APPROVE** the comment letter for submission to the IASB (subject to changes requested)?



[5 February 2025]

Agenda Item 6.2

Dr Andreas Barckow
Chair – International Accounting Standards Board
IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org

Dear Andreas

IASB/ED/2024/8 *Provisions – Targeted Improvements – Proposed amendments to IAS 37*

Thank you for the opportunity to comment on Exposure Draft IASB/ED/2024/8 *Provisions – Targeted Improvements Proposed amendments to IAS 37* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you. Our comments have been informed by targeted outreach and consultation with for-profit advisors in New Zealand.

We acknowledge that IASB's efforts to clarify the existing requirements for the recognition and measurement of provisions, to change the timing of recognition of some provisions, and to reduce diversity in, and increase the transparency of, discount rates used in provisions between entities.

Overall, we agree with and support, the IASB's proposals, subject to the detailed comment below. We consider the proposals overall are helpful to improve the recognition and measurement of provisions, as well as the guidance on implementing IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

However, there are some areas where we believe the proposals could be enhanced or clarified to ensure these are interpreted and applied in the manner intended by the IASB. The key areas we have comments on are:

- **Clarification of costs to include in measuring a provision** – The IASB should develop clear guidance material which explains what types of internal and external costs "relate directly" to different types of provisions. This will help ensure that entities do not excessively recognise all possible costs when recognising a provision.

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- **Effective date and clarity for users** – It is important that the effects of the proposed amendments can be clearly identified by users. Given that IFRS 18 *Presentation and Disclosure in Financial Statements* is mandatory from 1 January 2027, this may result in additional disclosures as to how financial statement presentation principles have been applied. We recommend that the IASB ensure the effective date of this ED's requirements avoids confusion by allowing users to clearly understand, and differentiate, changes in the measurement of provisions resulting from these proposals from changes made to the presentation of provisions resulting from IFRS 18.

Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Nimash Bhikha (nimash.bhikha@xrb.govt.nz) or me.

Yours sincerely

Dr Carolyn Cordery
Chair – New Zealand Accounting Standards Board

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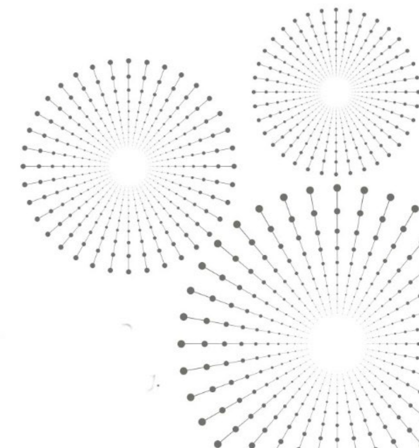

Appendix

Question 1 — Present obligation recognition criterion
The IASB proposes: *• to update the definition of a liability in IAS 37 Provisions, Contingent Liabilities and Contingent Assets to align it with the definition in the Conceptual Framework for Financial Reporting (paragraph 10);* *• to align the wording of the recognition criterion that applies that definition (the present obligation recognition criterion) with the updated definition of a liability (paragraph 14(a));* *• to amend the requirements for applying that criterion (paragraphs 14A–16 and 72–81); and* *• to make minor amendments to other paragraphs in IAS 37 that include words or phrases from the updated definition of a liability (Appendix A).* *The proposals include withdrawing IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment and IFRIC 21 Levies (paragraph 108).* *Paragraphs BC3–BC54 and BC86 of the Basis for Conclusions and Appendix A to the Basis for Conclusions explain the IASB's reasoning for these proposals.* *Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?*

Response to Question 1: Present obligation recognition criteria

1. We agree with the proposals, subject to the comments below.

<u>*Disentanglement of supporting requirements*</u>

2. We consider the disentanglement of the provision recognition criteria within paragraph 14A to be reasonable. The consideration of three distinct conditions provides for a clearer framework for entities to exercise their judgements around provisions.

3. However, paragraph 14(b) refers to "transfer of an economic resource" as part of assessing when it is probable an entity will be required to settle the obligation, while paragraph 14A(b) refers to the transfer condition – around the nature of an entity's obligation to transfer an economic resource. There may be confusion around how these paragraphs interact with the 'present obligation' or 'possible obligation' terminology contained within the definition of a contingent liability.

4. While paragraph 14K helps explain this interaction, this is included within the transfer condition section. We recommend the IASB reorder and make this more prominent within the requirements, to show these considerations relates to paragraph 14(b) and that the assessment of the present obligation recognition criteria may also result in determining a possible obligation for the purposes of disclosing a contingent liability.

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Clarification of obligation condition

5. We have not identified concerns with these proposals within paragraph 14B to 14H, and the updated wording to match the conceptual framework is considered reasonable.

6. However, the changing wording may be interpreted by entities as changing the principles of an obligation. We recommend the IASB develop clear guidance messaging that the updated terminology within these proposals is not intended to change the existing principles around "no practical ability to avoid" when considering the obligation condition.

Amendments to past-event condition and threshold-triggered costs

7. The proposals within paragraph 14P and 14Q result in a fundamental change in the recognition of threshold-triggered provisions and are expected to result in the recognition of these provisions being brought forward.

8. The ED principles assume that the activity which drives the provision occur evenly and accumulatively over the period and that actions an entity may take can be clearly distinguished and separated from each other. We note that there may be situations where the activity fluctuates, and the resulting obligation does not build up evenly over time, which may result in the subsequent derecognition of provisions, due to changes in management's estimates of future activities, and future actions based on already performed actions.

9. Our understanding means that in these situations:

    - Paragraph 14P notes that at any date within the assessment period, the present obligation is a portion of the total expected obligation for the assessment period and is the portion attributable to the activity carried out to date. As such, where the other recognition criteria are not met, including when it is no longer probable the entity's activity will exceed the threshold and the entity will be required to transfer an economic resource, then the provision should be derecognised.

    - Paragraph 14Q notes that where the requirement to transfer an economic resource is a consequence of taking multiple actions, then the past-event condition is met when the entity has taken the first action (or any of the actions) and has no practical ability to avoid taking the remaining actions. As such, where the other recognition criteria are not met, including is subsequently the entity has a practical ability to avoid future actions, then the provision should be derecognised.

10. We consider these requirements are reasonable, as any material judgements and estimates as to how these provisions have been determined would need to be disclosed under paragraphs 122 and 125 of IAS 1 *Presentation of Financial Statements,* and paragraphs 27G and 31A of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as amended by IFRS 18 *Presentation and Disclosure in Financial Statements*).

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Question 2 — Measurement—Expenditure required to settle an obligation
The IASB proposes to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A). *Paragraphs BC63–BC66 of the Basis for Conclusions explain the IASB's reasoning for this proposal.* *Do you agree with this proposal? Why or why not? If you disagree, what would you suggest instead?*

Response to Question 2: Measurement—Expenditure required to settle an obligation

11. We agree with the proposals, subject to the comments below.

12. Paragraph 40A of the proposals notes that the expenditure required to settle an obligation comprises of the costs that "relate directly" to the obligation and consists of both the incremental costs of settling that obligation, and an allocation of other costs that relate directly to settling obligations of that type.

13. We agree with the proposals and have not identified any significant concerns around including directly related costs within the measurement of a provision. This evaluation of a complete set of incremental costs required to settle obligations, when estimating provisions is reasonable and applicable to a wide range of provisions. However, there is a high level of judgement required by entities to determine which costs "relate directly" to the obligation and this may result in diversity in practice amongst entities.

14. We recommend that the IASB develop clear guidance material which explains what types of internal and external costs "relate directly" to different types of provisions (for example: make-good provisions, onerous contract provisions, litigation provisions, decommissioning provisions, restructuring provisions, warranty provisions). This will help ensure that entities do not excessively recognise all possible costs when recognising a provision and ensure these principles are followed in the manner intended by the IASB.

Question 3 — Discount rates
The IASB proposes to specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money— represented by a risk-free rate—with no adjustment for non-performance risk (paragraphs 47–47A). *The IASB also proposes to require an entity to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (paragraph 85(d)).* *Paragraphs BC67–BC85 of the Basis for Conclusions and Appendix B to the Basis for Conclusions explain the IASB's reasoning for these proposals.* *Do you agree with:* *(a) the proposed discount rate requirements; and*

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(b) the proposed disclosure requirements? *Why or why not? If you disagree, what would you suggest instead?*

Response to Question 3: Discount rates

15. We agree with the proposals, subject to the comments below.

16. Paragraph 47 of the proposals requires that the discount rate shall reflect risks surrounding the amount or timing of the expenditure required to settle the obligation if those risks are not reflected in the estimates of the future cash flows. Paragraph 47A notes that the discount rate does not reflect non-performance risk – the risk that the entity will not settle the obligation.

17. We agree with the proposals and consider that the clarifications that discount rates do not incorporate non-performance risk will make the application of the discount rate simpler, less costly to determine, and more reliable and consistent for users.

18. However, to ensure the non-performance risk is not considered in the valuation of a provision entirely, we recommend that the IASB clarify within the requirements that non-performance risk should also not be reflected in the expected cash flows of provisions.

19. The new disclosure requirement within paragraph 85(d) explaining the approach used to determine discount rates is also considered to be reasonable. This will provide useful information to users as to the methods used to determine discount rates and enabling enhanced understanding of its impact on the valuation of the provision.

Question 4 — Transition requirements and effective date
4(a) Transition requirements *The IASB proposes transition requirements for the proposed amendments (paragraphs 94B–94E).* *Paragraphs BC87–BC100 of the Basis for Conclusions explain the IASB's reasoning for these proposals.* *Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?* *4(b) Effective date* *If the IASB decides to amend IAS 37, it will decide on an effective date for the amendments that gives those applying IAS 37 sufficient time to prepare for the new requirements.* *Do you wish to highlight any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in this exposure draft?*

Response to Question 4: Transition requirements and effective date

20. We agree with the proposals, subject to the comments below.

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21. Given the changes in the recognition criteria for certain provisions through the ED, particularly for threshold-triggered provisions, the retrospective approach may result in restatements if there are large multi-year triggered costs which are not currently being recognised in line with the proposals.

22. It is important that the effects of the proposed amendments can be clearly identified by users. We note IFRS 18 *Presentation and Disclosure in Financial Statements* is mandatory from 1 January 2027 and requires entities to consider the grouping of information in the financial statements. Users may be confused if provision restatements due to the changes proposed in this ED are presented at the same time as IFRS 18-driven additional disclosures showing how the aggregation and disaggregation principles, and useful structured summary principles, have been applied.

23. We recommend the IASB consider the timing and effort required by users and entities to understand the changes proposed through IFRS 18 when determining the effective date for the proposals in this ED. The IASB should ensure the timing of these requirements allows for any restatements in the measurement of provisions resulting from these proposals to be understood, and differentiated, from changes made to the presentation of provisions resulting from IFRS 18.

24. We have not identified any other concerns with the transitional provisions and effective date.

Question 5 — Disclosure requirements for subsidiaries without public accountability
The IASB proposes to add to IFRS 19 Subsidiaries without Public Accountability: Disclosures a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B). *Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB's reasoning for this proposal.* *Do you agree with this proposal? Why or why not? If you disagree, which proposal do you disagree with and what would you suggest instead?*

Response to Question 5: Disclosure requirements for subsidiaries without public accountability

25. We agree with the proposals and consider the IFRS 19 *Subsidiaries without Public Accountability: Disclosures* amendments to require the discount rate to be disclosed but not the method used to determine the discount rate, to be reasonable. This will provide a proportionate level of disclosure for users of financial statements of subsidiaries without public accountability.

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Question 6 — Guidance on implementing IAS 37
The IASB proposes amendments to the Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It proposes: *(a) to expand the decision tree in Section B;* *(b) to update the analysis in the illustrative examples in Section C; and* *(c) to add illustrative examples to Section C.* *Paragraphs BC55–BC62 of the Basis for Conclusions explain the IASB's reasoning for these proposals.* *Do you think the proposed decision tree and examples are helpful in illustrating the application of the requirements? If not, why not?* *Do you have any other comments on the proposed decision tree or illustrative examples?*

Response to Question 6: Guidance on implementing IAS 37

26. We agree with the proposals, subject to the comments below.

27. We consider the updated decision tree to be helpful to explain the steps needed in determining a provision, in line with the updated disentangled requirements and definitions. The new illustrative examples are also useful to users and outlines previous matters which were already within IFRIC decisions, so that precedence is not lost.

28. However, the sequencing of the decision tree within the guidance appears to suggest that the three criteria included in paragraph 14A of the proposals should always be considered in order of the obligation condition, the transfer condition and then lastly the past-event condition. In some cases, it may be more appropriate to evaluate the proposed conditions through a different sequence (for example: legal provisions where the past-event condition is clearer to identify) to efficiently and effectively determine the need for a provision.

29. We recommend the IASB update the guidance on implementing IAS 37 to ensure there is flexibility in the sequencing in assessing the conditions which have been introduced in the proposals, to demonstrate how efficient decisions on provisions can be made.

Question 7 — Other comments
Do you have comments on any other aspects of the proposals in the Exposure Draft?

Response to Question 7: Other comments

30. We do not have any other comments on the proposals in this ED.

DRAFT

November 2024

Exposure Draft

IFRS® Accounting Standard

Provisions—Targeted Improvements

Proposed amendments to IAS 37

Comments to be received by 12 March 2025

International Accounting Standards Board

IASB/ED/2024/8

Exposure Draft
Provisions—Targeted Improvements

Proposed amendments to IAS 37

Comments to be received by 12 March 2025

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Introduction

What is the IASB proposing?

IN1 In this exposure draft, the International Accounting Standards Board (IASB) is proposing to make targeted improvements to three aspects of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*:

(a) one of the criteria for recognising a provision—the requirement for the entity to have a present obligation as a result of a past event (the present obligation recognition criterion); and

(b) two aspects of the requirements for measuring a provision—those relating to:

(i) the costs an entity includes in estimating the future expenditure required to settle its present obligation; and

(ii) the rate an entity uses to discount that future expenditure to its present value.

IN2 The IASB is also proposing amendments to the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets (*Guidance on implementing IAS 37*). These amendments would update the guidance on applying the present obligation recognition criterion to reflect the proposed amendments to the requirements.

Amendments to the present obligation recognition criterion

What are the main aims of the proposed amendments?

IN3 The proposed amendments to the present obligation recognition criterion aim:

(a) to clarify the requirements, which have led to questions from stakeholders to the IFRS Interpretations Committee.

(b) to change the timing of recognition of some provisions. The amendments would affect provisions for costs, often levies, that are payable only if an entity takes two separate actions or if a measure of its activity in a specific period exceeds a specific threshold. Provisions for some of these costs would be accrued earlier and progressively instead of at a later point in time, to provide more useful information to users of financial statements.

IN4 The IASB started by developing a new definition of a liability and new concepts to support that definition, adding them to the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) in 2018. The amendments proposed in this exposure draft apply those concepts and would align the requirements of IAS 37 with the *Conceptual Framework*.

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What amendments are proposed to achieve the main aims?

IN5 The proposed amendments to the present obligation recognition criterion include:

(a) updating the definition of a liability in IAS 37 and the wording of the present obligation recognition criterion to align them with the definition of a liability in the *Conceptual Framework*;

(b) amending the requirements that support the present obligation recognition criterion, drawing on concepts from the *Conceptual Framework*;

(c) withdrawing IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and replacing it with an illustrative example in the *Guidance on implementing IAS 37*;

(d) withdrawing IFRIC 21 *Levies*, whose requirements are not consistent with those proposed in this exposure draft, and replacing it with illustrative examples in the *Guidance on implementing IAS 37*; and

(e) making other amendments to the *Guidance on implementing IAS 37*:

  (i) adding examples to illustrate fact patterns that have been the subjects of IFRS Interpretations Committee agenda decisions; and

  (ii) expanding the decision tree and updating the analysis in existing illustrative examples to align it with the proposed requirements.

Who would be affected by the amendments?

IN6 The proposed amendments to the present obligation recognition criterion would have widespread applicability. This criterion affects decisions about whether and when to recognise all types of provisions. Entities that are subject to levies and similar government-imposed charges are among those that are likely to be most significantly affected by the proposed amendments.

Amendments relating to the costs to include in measuring a provision

IN7 IAS 37 requires an entity to measure a provision at the best estimate of the expenditure required to settle its present obligation. The IASB proposes to specify that this expenditure comprises the costs that relate directly to the obligation, which include both the incremental costs of settling that obligation and an allocation of other costs that relate directly to settling obligations of that type.

IN8 The aim of this amendment is to clarify that an entity uses the same assessment of costs in measuring a provision as IAS 37 already requires it to use in determining whether a contract is onerous.

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Amendments to the discount rate requirements

What is the main aim of the proposed amendments?

IN9 The main aim of the proposed amendments to the discount rate requirements is to reduce diversity in, and increase the transparency of, the discount rates entities use in measuring provisions, thereby improving the comparability of their financial statements.

IN10 Currently, some entities use risk-free rates whereas others use rates that include 'non-performance risk'—the risk that the entity will not settle the liability. Rates that include non-performance risk are higher than risk-free rates and result in smaller provisions. If two entities measure provisions using discount rates calculated on different bases, users of their financial statements might find it difficult to compare the entities' financial performance and financial position, especially if the entities disclose little information about the rates they have used.

What amendments are proposed to achieve the main aim?

IN11 The IASB proposes to specify that an entity discounts a provision using a risk-free rate—that is, a rate that excludes non-performance risk. The IASB proposes not to specify how an entity determines an appropriate risk-free rate, acknowledging that various approaches might be appropriate. The IASB instead proposes to require an entity to disclose the discount rates it has used and the approach it has used to determine those rates.

Who would be affected by the amendments?

IN12 The proposed amendments to the discount rate requirements would affect entities with provisions discounted to reflect the effect of the time value of money. The entities most affected are likely to be those with large long-term asset decommissioning or environmental rehabilitation provisions—typically entities operating in the energy generation, oil and gas, mining and telecommunications sectors.

Next steps

IN13 The IASB will consider comments it receives on the proposals in this exposure draft and will then decide whether and, if so, how to amend IAS 37.

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Invitation to comment

Introduction

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 a particular proposal that is not clear or would be difficult to translate; and

(e) identify any alternative the IASB should consider, if applicable.

The IASB requests that comments be confined to the questions asked in this exposure draft. However, respondents need not answer all the questions in this invitation to comment.

Questions for respondents

Question 1—Present obligation recognition criterion

The IASB proposes:

- to update the definition of a liability in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to align it with the definition in the *Conceptual Framework for Financial Reporting* (paragraph 10);
- to align the wording of the recognition criterion that applies that definition (the present obligation recognition criterion) with the updated definition of a liability (paragraph 14(a));
- to amend the requirements for applying that criterion (paragraphs 14A–16 and 72–81); and
- to make minor amendments to other paragraphs in IAS 37 that include words or phrases from the updated definition of a liability (Appendix A).

The proposals include withdrawing IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies* (paragraph 108).

Paragraphs BC3–BC54 and BC86 of the Basis for Conclusions and Appendix A to the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

Question 2—Measurement—Expenditure required to settle an obligation
The IASB proposes to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A). Paragraphs BC63–BC66 of the Basis for Conclusions explain the IASB's reasoning for this proposal. Do you agree with this proposal? Why or why not? If you disagree, what would you suggest instead?

Question 3—Discount rates
The IASB proposes to specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk (paragraphs 47–47A). The IASB also proposes to require an entity to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (paragraph 85(d)). Paragraphs BC67–BC85 of the Basis for Conclusions and Appendix B to the Basis for Conclusions explain the IASB's reasoning for these proposals. Do you agree with: (a) the proposed discount rate requirements; and (b) the proposed disclosure requirements? Why or why not? If you disagree, what would you suggest instead?

Question 4—Transition requirements and effective date
4(a) Transition requirements The IASB proposes transition requirements for the proposed amendments (paragraphs 94B–94E). Paragraphs BC87–BC100 of the Basis for Conclusions explain the IASB's reasoning for these proposals. Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead? **4(b) Effective date** If the IASB decides to amend IAS 37, it will decide on an effective date for the amendments that gives those applying IAS 37 sufficient time to prepare for the new requirements. Do you wish to highlight any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in this exposure draft?

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Question 5—Disclosure requirements for subsidiaries without public accountability
The IASB proposes to add to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B).
Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB's reasoning for this proposal.
Do you agree with this proposal? Why or why not? If you disagree, which proposal do you disagree with and what would you suggest instead?

Question 6—*Guidance on implementing IAS 37*
The IASB proposes amendments to the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets. It proposes:
(a) to expand the decision tree in Section B;
(b) to update the analysis in the illustrative examples in Section C; and
(c) to add illustrative examples to Section C.
Paragraphs BC55–BC62 of the Basis for Conclusions explain the IASB's reasoning for these proposals.
Do you think the proposed decision tree and examples are helpful in illustrating the application of the requirements? If not, why not?
Do you have any other comments on the proposed decision tree or illustrative examples?

Question 7—Other comments
Do you have comments on any other aspects of the proposals in the Exposure Draft?

Deadline

The IASB will consider all comments received in writing by 12 March 2025.

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] Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 14A–14U, 40A, 47A, 80A, 94B–94E and 106–108 are added, along with the example below paragraph 14P and the headings above paragraphs 14B, 14I, 14M, 14S, 15, 40A and 108. Paragraphs 17–22, the heading above paragraph 17 and the footnote to paragraph 10 are deleted. Paragraphs 3, 10, 14, 15–16, 47, 72–77, 79–80, 81 and 85 are amended, along with the heading below paragraph 14. Paragraphs 1, 36, 42–46, 70–71 and 78 are not amended, but are included for ease of reference. New text is underlined, deleted text is struck through and paragraphs that are not amended but are included for ease of reference are shown in grey.

Scope

1 **This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:**

(a) **those resulting from executory contracts, except where the contract is onerous; and**

(b) [deleted]

(c) **those covered by another Standard.**

...

3 An executory contract is a contract, or a portion of a contract, that is equally unperformed – ~~Executory contracts are contracts under which~~ neither party has fulfilled ~~performed~~ any of its obligations, or both parties have partially fulfilled ~~performed~~ their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.

Definitions

10 **The following terms are used in this Standard with the meanings specified:**

A *provision* is a liability of uncertain timing or amount.

A *liability* is a present obligation of the entity to transfer an economic resource as a result of ~~arising from~~ past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.~~[1]~~

~~**An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.**~~

A *legal obligation* is an obligation that derives from:

(a) **a contract (through its explicit or implicit terms);**

~~1 The definition of a liability in this Standard was not revised following the revision of the definition of a liability in the *Conceptual Framework for Financial Reporting* issued in 2018.~~

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(b) legislation; or

(c) other operation of law.

A *constructive obligation* is an obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

...

Recognition

Provisions

14 **A *provision* shall be recognised when three criteria are met:**

(a) an entity has a present obligation (legal or constructive) to transfer an economic resource as a result of a past event (paragraphs 14A–16);

(b) it is probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation (paragraphs 23–24); and

(c) a reliable estimate can be made of the amount of the obligation (paragraphs 25–26).

If any of these criteria ~~conditions~~ are not met, no provision shall be recognised.

Present obligation recognition criterion

14A The first criterion for recognising a provision (paragraph 14(a)) is that an entity has a present obligation (legal or constructive) to transfer an economic resource as a result of a past event. This criterion (the present obligation recognition criterion) comprises three conditions:

(a) an obligation condition—the entity has an obligation (paragraphs 14B–14H);

(b) a transfer condition—the nature of the entity's obligation is to transfer an economic resource (paragraphs 14I–14L); and

(c) a past-event condition—the entity's obligation is a present obligation that exists as a result of a past event (paragraphs 14M–14U).

Obligation condition (paragraph 14A(a))

14B The first condition for meeting the present obligation recognition criterion is that the entity has an obligation. An entity has an obligation if:

(a) a mechanism is in place that imposes a responsibility on the entity if it obtains specific economic benefits or takes a specific action;

(b) the entity owes that responsibility to another party; and

(c) the entity has no practical ability to avoid discharging the responsibility if it obtains the specific economic benefits or takes the specific action.

14C The mechanism imposing a responsibility could be:

(a) legal—a contract (through its explicit or implicit terms), legislation or other operation of law; or

(b) constructive—the entity's established pattern of past practice, its published policies or a sufficiently specific current statement.

14D The economic benefits the entity obtains could be, for example, cash, goods or services. The action the entity takes could be, for example, operating in a specific market, causing environmental damage or other harm to another party, owning specific assets on a specific date, or constructing an asset that will need to be decommissioned at the end of its useful life.

14E [Derives from first part of former paragraph 20] An obligation is always owed to another party. It is not necessary for an entity to know the identity of the party to whom the obligation is owed. The other party could be a person or another entity, a group of people or other entities, or society at large.

14F An entity has no practical ability to avoid discharging a responsibility:

(a) in the case of a legal obligation, if:

(i) the other party has a legal right to act against the entity if the entity fails to discharge the responsibility—for example, to ask a court to enforce settlement, charge the entity a financial penalty or restrict the entity's access to economic benefits; and

(ii) as a result of that right, the economic consequences for the entity of not discharging the responsibility are expected to be significantly worse than the costs of discharging it; or

(b) in the case of a constructive obligation, if the entity's pattern of past practice, published policy or sufficiently specific current statement creates valid expectations in other parties that the entity will discharge the responsibility.

14G [Derives from former paragraph 22] If details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. In this Standard, such an obligation is treated as a legal obligation. Variations in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.

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14H [Derives from second part of former paragraph 20] An obligation requires an entity to have no practical ability to avoid discharging a responsibility. Therefore, a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to create a valid expectation in those affected that the entity will discharge its responsibility.

Transfer condition (paragraph 14A(b))

14I The second condition for meeting the present obligation recognition criterion is that the nature of the entity's obligation is to transfer an economic resource. To meet this condition, the obligation must have the potential to require the entity to transfer an economic resource to another party.

14J For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource—the transfer may, for example, be required only if a specified uncertain future event occurs.

14K Consequently, the probability of a transfer does not affect whether an obligation meets the present obligation recognition criterion—an obligation can meet that criterion even if the probability is low. However, the probability of a transfer could affect:

(a) whether the obligation meets one of the other criteria for recognising a provision—a provision is recognised only if it is probable (more likely than not) that the entity will be required to transfer an economic resource to settle the obligation (see paragraphs 14(b) and 23); and

(b) whether the entity discloses a contingent liability if the obligation does not meet all the criteria for recognising a provision (see paragraph 23).

14L An obligation to exchange economic resources with another party is not an obligation to transfer an economic resource to that party unless the terms of the exchange are unfavourable to the entity. Accordingly, the obligations arising under an executory contract—for example, a contract to receive goods in exchange for paying cash—are not obligations to transfer an economic resource unless the contract is onerous.

Past-event condition (paragraph 14A(c))

14M The third condition for meeting the present obligation recognition criterion is that the entity's obligation is a present obligation that exists as a result of a past event.

14N An entity's obligation becomes a present obligation that exists as a result of a past event when the entity:

(a) has obtained specific economic benefits or taken a specific action, as described in paragraphs 14B and 14D; and

(b) as a consequence of having obtained those benefits or taken that action, will or may have to transfer an economic resource it would not otherwise have had to transfer.

14O If the economic benefits are obtained, or the action is taken, over time, the past-event condition is met, and the resulting present obligation accumulates, over that time.

14P In some situations, an entity has an obligation to transfer an economic resource only if a measure of its activity in a period (the assessment period) exceeds a specific threshold. In such situations, the action that meets the past-event condition is the activity that contributes to the total activity on which the amount of the transfer is assessed. At any date within the assessment period, the present obligation is a portion of the total expected obligation for the assessment period. It is the portion attributable to the activity carried out to date. The entity recognises a provision if the recognition criteria in paragraphs 14(b) and 14(c) are met—that is, if:

(a) it is probable that the entity's activity will exceed the threshold and the entity will be required to transfer an economic resource (see paragraph 14(b)); and

(b) a reliable estimate can be made of the amount of the obligation (see paragraph 14(c)).

Example
Legislation imposes on an entity a responsibility to pay a levy of two per cent of the revenue it generates above a specific threshold in a calendar year. Management judges that this responsibility meets both the obligation condition (paragraph 14A(a)) and the transfer condition (paragraph 14A(b)). The action that meets the past-event condition (paragraph 14A(c)) is generating revenue in the calendar year. Accordingly, a present obligation accumulates as the entity generates that revenue. At any date within the calendar year, the present obligation is the portion of the total expected obligation for the year attributable to the revenue generated to date. The entity recognises a provision if: (a) it is probable that the entity's revenue will exceed the threshold and the entity will be required to pay the levy (see paragraph 14(b)); and (b) a reliable estimate can be made of the amount of the obligation (see paragraph 14(c)).

14Q In some situations, an entity has an obligation to transfer an economic resource only if it takes two (or more) separate actions, and the requirement to transfer an economic resource is a consequence of taking both (or all) these actions. In such situations, the past-event condition is met when the entity has taken the first action (or any of the actions) and has no practical ability to avoid taking the second action (or all the remaining actions).

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14R A decision to prepare an entity's financial statements on a going concern basis implies that the entity has no practical ability to avoid taking an action it could avoid only by liquidating the entity or by ceasing to trade.

Interactions between the obligation and past-event conditions

14S The enactment of a new law is not in itself sufficient to create a present legal obligation for an entity. A present legal obligation arises only if, as a consequence of obtaining the economic benefits or of taking the action to which the law applies, the entity will or may have to transfer an economic resource it would not otherwise have had to transfer (see paragraph 14N).

14T Similarly, having an established pattern of past practice, publishing a policy or making a statement is not in itself sufficient to create a present constructive obligation for an entity. A present constructive obligation arises only if, as a consequence of obtaining the economic benefits or of taking the action to which the practice, policy or statement applies, the entity will or may have to transfer an economic resource it would not otherwise have had to transfer (see paragraph 14N).

14U [Derives from former paragraph 21] An action of the entity that does not give rise to a present obligation immediately might do so at a later date, because a mechanism is introduced that imposes new responsibilities on the entity—a new law might be enacted, an existing law might be changed or the entity might establish a pattern of practice, publish a policy or make a statement that gives rise to a constructive obligation. For example, if an entity causes environmental damage, it might have no obligation to remedy the damage at the time of causing it. However, the causing of the damage will be the past event that has created a present obligation if, at a later date, a new law requires the existing damage to be rectified, or if the entity accepts responsibility for rectification in a way that creates a constructive obligation.

Uncertainty about whether the present obligation recognition criterion is met

15 **In rare cases it is not clear whether there is a present obligation to transfer an economic resource as a result of a past event. In these cases, such an obligation is deemed to exist ~~a past event is deemed to give rise to a present obligation~~ if, taking account of all available evidence, it is more likely than not that the ~~a present~~ obligation exists at the end of the reporting period.**

16 In almost all cases it will be clear whether a past event has given rise to a present obligation to transfer an economic resource. In rare cases, it is not clear—for example in a lawsuit, it may be disputed either whether specific ~~certain~~ events have occurred or whether those events result in a present obligation to transfer an economic resource. In such a case, an entity determines whether such an ~~a present~~ obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:

(a) where it is more likely than not that a present obligation to transfer an economic resource exists as a result of a past event at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and

(b) where it is more likely that no such ~~present~~ obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of the entity being required to transfer an economic resource ~~an outflow of resources embodying economic benefits~~ is remote (see paragraph 86).

~~Past event~~

17–22 [Deleted]

~~17~~ [Replaced by paragraph 14F] ~~A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:~~

~~(a) where the settlement of the obligation can be enforced by law; or~~

~~(b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.~~

~~18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's statement of financial position are those that exist at the end of the reporting period.~~

~~19~~ [Replaced by paragraphs 14N–14R] ~~It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.~~

~~20~~ [Renumbered as paragraphs 14E and 14H with edits] ~~An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed—indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management~~

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~~or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.~~

~~21~~ [Renumbered as paragraph 14U with edits] ~~An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.~~

~~22~~ [Renumbered as paragraph 14G] ~~Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.~~

...

Measurement

Best estimate

36 **The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.**

...

Costs to include

40A The expenditure required to settle an obligation comprises the costs that relate directly to the obligation. Costs that relate directly to an obligation consist of both:

(a) the incremental costs of settling that obligation; and

(b) an allocation of other costs that relate directly to settling obligations of that type.

...

Risks and uncertainties

42 **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

43 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

44 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

Present value

45 **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

47 **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s):**

(a) **current market assessments of the time value of money, represented by a risk-free rate; and**

(b) **risks surrounding the amount or timing of the expenditure required to settle the obligation (as described in paragraphs 42–43) if those risks are not reflected in the estimates of the future cash flows ~~the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted~~.**

47A The discount rate (or rates) does (do) not reflect non-performance risk—the risk that the entity will not settle the obligation.

...

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Application of the recognition and measurement rules

...

Restructuring

70 The following are examples of events that may fall under the definition of restructuring:

(a) sale or termination of a line of business;

(b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;

(c) changes in management structure, for example, eliminating a layer of management; and

(d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

71 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72–83 set out how the general recognition criteria apply to restructurings.

72 A present ~~constructive~~ obligation for the costs of a restructuring ~~to restructure~~ arises only when an entity:

(a) has a detailed formal plan for the restructuring identifying at least:

(i) the business or part of a business concerned;

(ii) the principal locations affected;

(iii) the location, function, and approximate number of employees who will be compensated for terminating their services;

(iv) the expenditures that will be undertaken; and

(v) when the plan will be implemented; and

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

73 Evidence that an entity has started to implement a restructuring plan would be provided, for example, by:

(a) dismantling plant or selling assets; or

(b) ~~by~~ the public announcement of the plan, ~~the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only~~ if it is made in such a way and in sufficient detail (ie setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the entity will carry out the restructuring.

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74 For a plan ~~to be sufficient~~ to give rise to such expectations ~~to a constructive obligation when communicated to those affected by it~~, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.

75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a present ~~constructive~~ obligation at the end of the reporting period unless the entity has, before the end of the reporting period:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under IAS 10 *Events after the Reporting Period*, if information about the restructuring is material and non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

76 Although a present ~~constructive~~ obligation is not created solely by a management decision, a present ~~an~~ obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale of an operation, may have been concluded subject only to board approval. Once that approval has been obtained and communicated to the other parties, the entity has a present ~~constructive~~ obligation for restructuring costs ~~to restructure~~, if the conditions of paragraph 72 are met.

77 In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those of management (eg employees) or notification to such representatives may be necessary before the board decision is taken. Because a decision by such a board involves communication to these representatives, it may result in a present ~~constructive~~ obligation for restructuring costs ~~to restructure~~.

78 **No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.**

79 Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on

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acceptable terms. When the sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment, under IAS 36. When a sale is only part of a restructuring, a present ~~constructive~~ obligation can arise for the costs of the other parts of the restructuring before a binding sale agreement exists.

80 **A restructuring provision shall include only present obligations for the direct expenditures arising from the restructuring, which are those that are both:**

- (a) **necessarily entailed by the restructuring; and**
- (b) **not associated with the ongoing activities of the entity.**

80A A restructuring provision could include such obligations as:

- (a) statutory, contractual or constructive obligations to pay termination benefits to employees whose roles are made redundant by the restructuring, to the extent that the obligations relate to past employment; or
- (b) contractual obligations to pay penalties for cancelling executory supply contracts the entity entered into before the end of the reporting period.

81 A restructuring provision does not include such costs as:

- (a) retraining or relocating continuing staff;
- (b) marketing; or
- (c) investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not present obligations to transfer an economic resource ~~liabilities for restructuring~~ at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

...

Disclosure

...

85 **An entity shall disclose the following for each class of provision:**

- (a) **a brief description of the nature of the obligation and the expected timing of any resulting transfer ~~outflows~~ of economic resources ~~benefits~~;**
- (b) **an indication of the uncertainties about the amount or timing of that transfer ~~those outflows~~. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; ~~and~~**

(c) **the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement; and.**

(d) **if a provision is discounted, the discount rate (or rates) used in measuring the provision and the approach used to determine that rate (or those rates).**

...

Transitional provisions

...

94B *Provisions—Targeted Improvements*, issued in [Month, Year], amended IAS 37 (see paragraph 106). An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (see paragraph 94C), except as required by paragraph 94D and as permitted by paragraph 94E. For the purposes of applying paragraphs 94C–94E:

(a) the transition date is the beginning of the first annual reporting period for which the entity provides comparative information; and

(b) the date of initial application is the beginning of the annual reporting period in which the entity first applies the amendments.

94C To apply the amendments described in paragraph 94B retrospectively, an entity shall at the transition date:

(a) identify, recognise and measure provisions as if the entity had always applied the amendments;

(b) re-measure the carrying amount of related assets (for example, items of property, plant and equipment or right-of-use assets), if any, as if the entity had always applied the amendments; and

(c) recognise any resulting net difference in retained earnings or other component of equity, as appropriate.

94D If an entity changes its accounting policy for the costs it includes in the measure of a provision to comply with paragraph 40A, the entity shall apply the change in accounting policy:

(a) only to obligations the entity has not yet settled at the date of initial application; and

(b) without restating comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of a related asset (if any), retained earnings or other component of equity, as appropriate, at the date of initial application.

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94E If an entity changes its accounting policy for determining discount rates to comply with the amendments to paragraphs 47–47A, the entity is not required to comply with the requirements in IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for changes in the measurement of a provision that occurred before the transition date. An entity that uses this exemption shall:

(a) apply the amended requirements to restate the provision at the transition date; and

(b) apportion the amount by which it adjusts the provision at the transition date between the related asset and retained earnings:

(i) assuming the current discount rate(s) and estimates of cash flows used in measuring the provision have not changed since the provision was first recognised; and

(ii) using current estimates of the useful life of the related asset.

Effective date

...

106 *Provisions—Targeted Improvements*, issued in [Month, Year]:

(a) added paragraphs 14A–14U, 40A, 47A, 80A, 94B–94E and 106–108;

(b) deleted paragraphs 17–22; and

(c) amended paragraphs 3, 10, 14, 15–16, 47, 72–77, 79–80, 81 and 85.

107 An entity shall apply the amendments listed in paragraph 106 for annual reporting periods beginning on or after [Day, Month, Year]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Withdrawal of IFRIC 6 and IFRIC 21

108 *Provisions—Targeted Improvements*, issued in [Month, Year], supersedes IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies*.

Appendix A—[Draft] Minor amendments to IAS 37

This appendix lists [draft] minor amendments to other paragraphs in IAS 37 that include words or phrases from the definition of a liability in paragraph 10.

Paragraphs 10, 13, 23–24, 28–30, 39, 59 and 86 and the subheading before paragraph 23 are amended. New text is underlined and deleted text is struck through.

Definitions

10 **The following terms are used in this Standard with the meanings specified:**

...

A *contingent liability* is:

...

(b) **a present obligation that arises from past events but is not recognised because:**

(i) **it is not probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation; or**

(ii) **the amount of the obligation cannot be measured with sufficient reliability.**

...

Relationship between provisions and contingent liabilities

...

13 This Standard distinguishes between:

(a) provisions – which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer economic resources to settle the obligations; and

(b) contingent liabilities – which are not recognised as liabilities because they are either:

(i) possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to the transfer of an economic resource ~~an outflow of resources embodying economic benefits~~; or

(ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the

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obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

...

Recognition

Provisions

...

Probable transfer of an economic resource ~~outflow of resources embodying economic benefits~~

23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of the entity transferring an economic resource ~~an outflow of resources embodying economic benefits~~ to settle that obligation. For the purpose of this Standard,[footnote not included] a transfer of an economic resource ~~an outflow of resources~~ or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of the entity transferring an economic resource ~~an outflow of resources embodying economic benefits~~ is remote (see paragraph 86).

24 Where there are a number of similar obligations (eg product warranties or similar contracts) the probability that a transfer ~~an outflow~~ will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of a transfer ~~outflow~~ for any one item may be small, it may well be probable that some transfers ~~outflow of resources~~ will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

...

Contingent liabilities

...

28 A contingent liability is disclosed, as required by paragraph 86, unless the possibility of a transfer of an economic resource ~~an outflow of resources embodying economic benefits~~ is remote.

29 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which a transfer of an economic resource ~~an outflow of resources embodying economic benefits~~ is probable, except in the extremely rare circumstances where no reliable estimate can be made.

30 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether a transfer of an economic resource ~~an outflow of resources embodying economic benefits~~ has become probable. If it becomes probable that the entity ~~an outflow of future economic benefits~~ will be required to transfer an economic resource for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

...

Measurement

Best estimate

...

39 ...

Example
An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of 1 million would result. If major defects were detected in all products sold, repair costs of 4 million would result. The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In accordance with paragraph 24, an entity assesses the probability of repair costs ~~an outflow~~ for the warranty obligations as a whole.
The expected value of the cost of repairs is:
(75% of nil) + (20% of 1m) + (5% of 4m) = 400,000

...

Changes in provisions

59 **Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation, the provision shall be reversed.**

...

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Disclosure

...

86 **Unless the possibility of any transfer of economic resources ~~outflow~~ in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:**

(a) an estimate of its financial effect, measured under paragraphs 36–52;

(b) an indication of the uncertainties relating to the amount or timing of any transfer ~~outflow~~; and

(c) the possibility of any reimbursement.

Appendix B—[Draft] Amendments to other IFRS Accounting Standards

This appendix sets out the [draft] amendments to other IFRS Accounting Standards proposed as a consequence of the proposed amendments to IAS 37.

IFRS 3 *Business Combinations*

Paragraphs 21, 22 and 23 and the subheading after paragraph 21 are amended. Paragraphs 21A–21C and the subheading before paragraph 21A are deleted. Paragraph 64S is added. New text is underlined and deleted text is struck through.

The acquisition method

...

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

...

Exceptions to the recognition or measurement principles

21 This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs 22 ~~21A~~–31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22 ~~21A~~–31A, which will result in some items being:

(a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other IFRSs, with results that differ from applying the recognition principle and conditions.

(b) measured at an amount other than their acquisition-date fair values.

Exception ~~Exceptions~~ to the recognition principle

~~Liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21~~

21A–21C [Deleted]

~~21A~~ ~~Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* if they were incurred separately rather than assumed in a business combination.~~

~~21B~~ ~~The *Conceptual Framework for Financial Reporting* defines a liability as 'a present obligation of the entity to transfer an economic resource as a result of past events'. For a provision or contingent liability that would be within the scope of IAS 37, the acquirer shall apply paragraphs 15–22 of IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past~~

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~~events. For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.~~

~~21C~~ ~~A present obligation identified in accordance with paragraph 21B might meet the definition of a contingent liability set out in paragraph 22(b). If so, paragraph 23 applies to that contingent liability.~~

Contingent liabilities and contingent assets

22 IAS 37 defines a contingent liability as:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

23 The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs 14(b), 23, 27, 29 and 30 of IAS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation. Paragraph 56 of this IFRS provides guidance on the subsequent accounting for contingent liabilities.

...

Effective date and transition

Effective date

...

64S *Provisions—Targeted Improvements*, issued in [Month, Year], which amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, also amended paragraphs 21, 22 and 23 of this Standard and deleted paragraphs 21A–21C. An entity shall apply the amendments to this Standard when it applies the amendments to IAS 37.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Paragraphs 258 and 259 are amended and paragraph A6 is added. New text is underlined and deleted text is struck through.

Disclosure requirements

...

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

...

258 An entity shall also disclose, for each class of provision (comparative information is not required):

(a) a brief description of the nature of the obligation and the expected timing of any resulting transfer ~~outflows~~ of economic resources ~~benefits~~.

(b) an indication of the uncertainties about the amount or timing of that transfer ~~those outflows~~. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48 of IAS 37.

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

(d) if a provision is discounted, the discount rate (or rates) used in measuring the provision.

259 Unless the possibility of any transfer of economic resources ~~outflow~~ in settlement is remote, an entity shall disclose, for each class of contingent liability at the end of the reporting period, a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs 36–52 of IAS 37;

(b) an indication of the uncertainties relating to the amount or timing of any transfer ~~outflow~~; and

(c) the possibility of any reimbursement.

...

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Appendix A—Effective date and transition

...

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

A6 *Provisions—Targeted Improvements*, issued in [Month, Year], amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and paragraphs 258 and 259 of this Standard. An entity shall apply the amendments to paragraphs 258 and 259 when it applies the amendments to IAS 37.

Other consequential amendments

Table B1 lists paragraphs of other IFRS Accounting Standards and accompanying guidance for which minor consequential amendments would be required to align the wording of references to IAS 37 with the revised wording in IAS 37.

Table B1—Other consequential amendments

Type of amendment	IFRS Accounting Standard or guidance	Paragraphs
Updated references to requirements in IAS 37 to maintain consistency with the amended wording of the definition of a liability and recognition criteria in IAS 37.	*Illustrative Examples on IAS 34* Interim Financial Reporting	B3–B4
	IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	3–4
Updated wording of references to the IAS 37 requirements on discount rates.	IFRS 1 *First-time Adoption of International Financial Reporting Standards*	D21(b)
	Guidance on implementing IFRS 1 First-time Adoption of International Financial Reporting Standards	IG Example 201 (after paragraph IG203)
	IFRIC 1	3–4

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November 2024

Exposure Draft

IFRS® Accounting Standard

Provisions—Targeted Improvements

Proposed amendments to
Guidance on implementing IAS 37

Comments to be received by 12 March 2025

International Accounting Standards Board

IASB/ED/2024/8

Exposure Draft
Provisions—Targeted Improvements

Proposed amendments to
Guidance on implementing IAS 37

Comments to be received by 12 March 2025

Exposure Draft IASB/ED/2024/8/IG is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **12 March 2025** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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CONTENTS

IMPLEMENTATION GUIDANCE

A Tables—Provisions, contingent liabilities, contingent assets and reimbursements

B Decision tree

C Examples—Recognition

Guidance on implementing IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

This guidance accompanies, but is not part of, IAS 37. All paragraph references in this guidance are to paragraphs in IAS 37.

Sections A, B and C are amended as described in each section. Section D is unamended and not reproduced in this exposure draft.

A Tables—Provisions, contingent liabilities, contingent assets and reimbursements

Minor amendments are made to the wording in the tables in Section A, for consistency with amendments to the definition of a liability in IAS 37. These minor amendments are not shown in this exposure draft.

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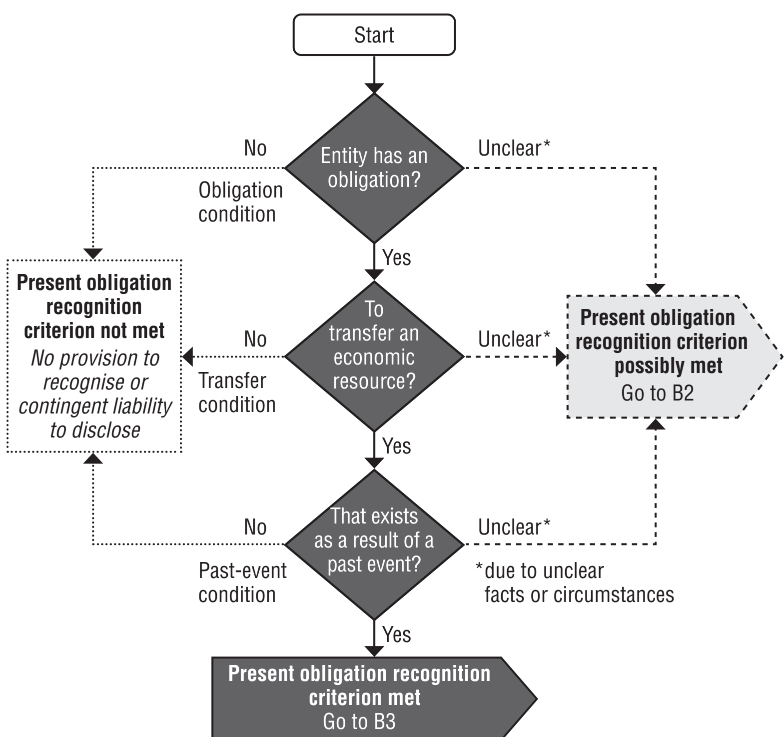
B Decision tree

The decision tree and supporting explanation are deleted and a new three-part decision tree and supporting explanation are added. For ease of reading, the changes to the decision tree are not marked. Other new text is underlined and other deleted text is struck through.

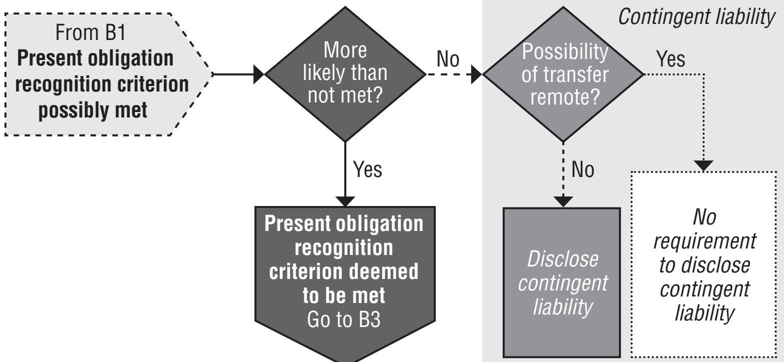
This three-part decision tree summarises the process of applying the three criteria for recognising a provision set out in paragraphs 14–26.~~The purpose of this diagram is to summarise the main recognition requirements of the Standard for provisions and contingent liabilities.~~

B1 Present obligation recognition criterion (paragraphs 14(a) and 14A–16)

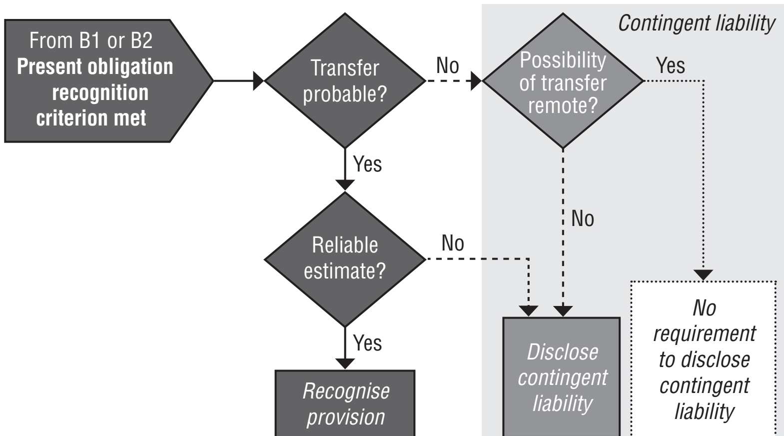


B2 Additional decision needed if it is unclear whether the present obligation recognition criterion is met (paragraphs 15–16)

~~Note:~~ In rare cases, it is not clear whether there is a present obligation to transfer an economic resource as a result of a past event. In these cases, such an obligation is deemed to exist ~~a past event is deemed to give rise to a present obligation~~ if, taking account of all available evidence, it is more likely than not that the ~~a present~~ obligation exists at the end of the reporting period (paragraph 15 ~~of the Standard~~).



B3 Probable transfer and reliable estimate recognition criteria (paragraphs 14(b), 14(c) and 23–26)



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C Examples—Recognition

Example 4 is deleted. Examples 12–15 are added. Examples 1–3, 5A–7 and 10–11B are amended. Examples 8 and 9 were deleted by previous amendments. New text is underlined and deleted text is struck through.

The examples in this section illustrate the application of the recognition requirements in paragraphs 14–26.

All the entities in the examples have financial reporting periods ending on 31 December unless otherwise stated ~~year ends~~. In all cases, it is assumed that a reliable estimate can be made of the amount of any obligation ~~any outflows expected~~. In some examples the circumstances described may have resulted in impairment of the assets—this aspect is not dealt with in the examples.

The cross-references provided in the examples indicate paragraphs of IAS 37 ~~the Standard~~ that are particularly relevant.

References to 'best estimate' are to the present value amount, where the effect of the time value of money is material.

Example 1—Warranties

A manufacturer provides ~~gives~~ warranties in connection with the sale ~~at the time of sale to purchasers~~ of its products. The warranties are provided within the contract for sale of the product (they are not sold separately) and they provide customers with assurance that the product will function as intended. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale.

Management judges that the manufacturer has no practical ability to avoid complying with the terms of the contract for sale. On past experience, management judges it is probable (ie more likely than not) that there will be some claims under the warranties provided on past sales.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – All three conditions specified in paragraph 14A of IAS 37 are met: ~~The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.~~

Obligation condition	✓	The contract for sale imposes a responsibility on the manufacturer if it sells defective products (paragraph 14B(a)). The manufacturer owes that responsibility to its customers (paragraph 14B(b)). The manufacturer has no practical ability to avoid discharging its responsibility if it sells defective products (paragraph 14B(c)).
Transfer condition	✓	The obligation has the potential to require the manufacturer to provide repair services or replacement goods to customers (paragraphs 14I–14J).
Past-event condition	✓	On the basis of the available evidence (past experience), management judges it to be more likely than not that the manufacturer has taken the action (selling defective products) as a consequence of which it will have to provide services or goods it would not otherwise have had to provide (paragraphs 14N and 15–16). The past-event condition is met for warranty costs attributable to defective products sold in the past.

A transfer of economic resources ~~An outflow of resources embodying economic benefits~~ in settlement – Probable for the warranties as a whole (see paragraph 24).

Conclusion – A provision is recognised for the best estimate of the costs of repairing or replacing ~~making good~~ under the warranty products sold before the end of the reporting period ~~(see paragraphs 14 and 24)~~.

Example 2A—Contaminated land: legislation virtually certain to be enacted

An entity in the oil industry causes contamination but cleans up only when required to do so under the laws of the particular country in which it operates. One country in which it operates has had no legislation requiring cleaning up, and the entity has been contaminating land in that country for several years. At 31 December 20X0 it is virtually

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certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year-end. Management judges that, the entity will have no practical ability to avoid complying with the law.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – All three conditions specified in paragraph 14A of IAS 37 are met: ~~The obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.~~

Obligation condition	✓	An obligation arises when legislation is virtually certain to be enacted as drafted (paragraph 14G). Legislation that is virtually certain to be enacted imposes a responsibility on the entity if it contaminates land (paragraph 14B(a)). The entity owes that responsibility to the country's government, which acts on behalf of society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it contaminates land (paragraph 14B(c)).
Transfer condition	✓	The entity's obligation is to provide clean-up services (paragraph 14I).
Past-event condition	✓	The entity has taken the action (contaminating land) as a consequence of which it will have to provide clean-up services it would not otherwise have had to provide (paragraph 14N). The past-event condition is met for clean-up costs attributable to contamination caused before the end of the reporting period.

A transfer of economic resources ~~An outflow of resources embodying economic benefits~~ in settlement – Probable.

Conclusion – A provision is recognised at 31 December 20X0 for the best estimate of the costs of cleaning up contamination caused before that date ~~the clean-up (see paragraphs 14 and 22)~~.

Example 2B—Contaminated land and constructive obligation

An entity in the oil industry causes contamination and operates in a country where there is no environmental legislation. However, the entity has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy. Management judges that by publishing the policy and honouring it in the past, the entity has created a valid expectation in society at large that it will honour the policy in the future and therefore has no practical ability to avoid doing so. The entity has contaminated land and has not yet cleaned it up.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – All three conditions specified in paragraph 14A of IAS 37 are met: ~~The obligating event is the contamination of the land, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up contamination.~~

Obligation condition	✓	The entity's published policy imposes a responsibility on the entity if it contaminates land (paragraph 14B(a)). The entity owes that responsibility to the country's government, which acts on behalf of society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it contaminates land (paragraphs 14B(c) and 14F(b)).
Transfer condition	✓	The entity's obligation is to provide clean-up services (paragraph 14I).
Past-event condition	✓	The entity has taken the action (contaminating land) as a consequence of which it will have to provide clean-up services it would not otherwise have had to provide (paragraph 14N). The past-event condition is met for clean-up costs attributable to contamination caused before the end of the reporting period.

A transfer of economic resources ~~An outflow of resources embodying economic benefits~~ in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the costs of cleaning up contamination caused before the end of the reporting period ~~clean-up (see paragraphs 10 (the definition of a constructive obligation), 14 and 17)~~.

Example 3—Offshore oilfield

An entity operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Management judges that the entity has no practical ability to avoid complying with the terms of the licensing agreement.

Ninety per cent of the eventual costs relate to the removal of the oil rig and restoration of the area damaged by constructing ~~damage caused by building~~ it, and 10% ~~per cent~~ arise through the extraction of oil. At the end of the reporting period, the oil rig has been constructed but no oil has been extracted.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – All three conditions specified in paragraph 14A of IAS 37 are met: ~~The construction of the oil rig creates a legal obligation under the terms of the licence to remove the rig and restore the seabed and is thus an obligating event. At the end of the reporting period, however, there is no obligation to rectify the damage that will be caused by extraction of the oil.~~

Obligation condition	✓	The licensing agreement imposes a responsibility on the entity if it constructs an oil rig (paragraph 14B(a)). The entity owes that responsibility to the licensor (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it constructs an oil rig (paragraph 14B(c)).

continued...

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...continued

Transfer condition	✓	The entity's obligation is to provide oil rig removal and seabed restoration services (paragraph 14I).
Past-event condition	✓	The entity has taken the action (constructing the oil rig) as a consequence of which it will have to provide oil rig removal and seabed restoration services it would not otherwise have had to provide (paragraph 14N). The past-event condition is met for the portion of the total expected costs attributable to removing the oil rig and rectifying damage caused to date (90% of the total expected costs) (paragraph 14O). The entity will incur further costs (10% of the total) as a consequence of extracting oil. The entity has not yet extracted oil, so the past-event condition is not yet met for those further costs (paragraph 14O).

A transfer of economic resources ~~An outflow of resources embodying economic benefits~~ in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of 90% ~~ninety per cent~~ of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by constructing ~~building~~ it ~~(see paragraph 14)~~. To comply with the requirements in IAS 16 *Property, Plant and Equipment*, these ~~These~~ costs are included as part of the cost of the oil rig. A provision for the 10% ~~The 10 per cent~~ of costs that arise through the extraction of oil will be ~~are~~ recognised ~~as a liability~~ when the oil is extracted.

Example 4—Refunds policy

[Deleted]

~~A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.~~

~~**Present obligation as a result of a past obligating event** – The obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.~~

~~**An outflow of resources embodying economic benefits in settlement** – Probable, a proportion of goods are returned for refund (see paragraph 24).~~

~~**Conclusion** – A provision is recognised for the best estimate of the costs of refunds (see paragraphs 10 (the definition of a constructive obligation), 14, 17 and 24).~~

Example 5A—Closure of a division: no communication or implementation before end of the reporting period

On 12 December 20X0 the board of an entity decided to close ~~down~~ a division. Closing the division will necessarily entail terminating employee contracts. Employees who have provided at least one year's service will have a contractual right to receive termination benefits (redundancy payments). Management judges that the entity has no practical ability to avoid its contractual obligations.

Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – The three conditions specified in paragraph 14A of IAS 37 are not all met: ~~There has been no obligating event and so there is no obligation.~~

Obligation condition	✓	The entity's contracts with its employees impose a responsibility on the entity if it takes two actions—employing (obtaining services from) a person for at least a year and then terminating the employee's contract (paragraph 14B(a)). The entity owes that responsibility to its employees (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it takes the two actions—closing the division will necessarily entail paying employee termination benefits (paragraphs 14B(c) and 80(a)).
Transfer condition	✓	The entity's obligation is to pay termination benefits to its employees (paragraph 14I).
Past-event condition	✗	The entity is required to pay employee termination benefits only if it takes two separate actions— employing (obtaining services from) a person for at least a year and then terminating the employee's contract (paragraph 14Q). At 31 December 20X0 the entity has taken the first action but still has the practical ability to avoid the second action because the criteria set out in paragraph 72 are not met—the entity has not yet started to implement a closure plan or announced the main features of a closure plan to affected employees.

Conclusion – No provision is recognised at 31 December 20X0 ~~(see paragraphs 14 and 72)~~.

Example 5B—Closure of a division: communication/implementation before end of the reporting period

On 12 December 20X0 the board of an entity decided to close ~~down~~ a division making a particular product. Closing the division will necessarily entail terminating employee and customer contracts. Employees who have provided at least one year's service will have a contractual right to receive termination benefits (redundancy payments) and some customers will have a contractual right to receive contract termination penalties.

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Management judges that the entity has no practical ability to avoid its contractual obligations.

On 20 December 20X0 the board agreed a detailed plan for closing down the division, was agreed by the board; letters were sent to customers warning them to seek an alternative source of supply, and redundancy notices were sent to the staff of the division.

Present obligation to transfer an economic resource as a result of a past obligating event – All three conditions specified in paragraph 14A of IAS 37 are met: The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

Obligation condition	✓	The entity's contracts with its employees impose a responsibility on the entity if it takes two actions—employing (obtaining services from) a person for at least a year and then terminating the employee's contract (paragraph 14B(a)). The entity owes that responsibility to its employees (paragraph 14B(b)). Similarly, the entity's contracts with some of its customers impose a responsibility on the entity if it takes two actions—entering into the contract with the customer and then terminating the contract. The entity owes that responsibility to its customers. The entity has no practical ability to avoid discharging its responsibilities if it takes the two actions—closing the division will necessarily entail paying termination benefits and penalties (paragraphs 14B(c) and 80(a)).
Transfer condition	✓	The entity's obligation is to pay termination benefits to its employees and contract termination penalties to its customers (paragraph 14I).
Past-event condition	✓	The entity is required to pay employee termination benefits only if it takes two separate actions—employing (obtaining services from) a person for at least a year and then terminating the employee's contract (paragraph 14Q). At 31 December 20X0 the entity has taken the first action and has no practical ability to avoid the second action because the criteria set out in paragraph 72 are met—the entity has a detailed formal plan for closing the division and it has sent redundancy notices to affected employees. The termination benefits are payable in respect of past service from employees—they are not associated with the ongoing activities of the entity (paragraph 80(b)). By the same logic, the past-event condition is met for the contract termination penalties payable to customers.

A transfer of economic resources ~~An outflow of resources embodying economic benefits~~ in settlement – Probable.

Conclusion – A provision is recognised at 31 December 20X0 for the best estimate of the costs of employee termination benefits and customer contract termination penalties that will be payable as a result of closing the division ~~(see paragraphs 14 and 72)~~.

Example 6—Legal requirement to fit smoke filters

In 20X0 a government enacts legislation. Under the ~~new~~ legislation, entities that produce smoke in their operations are ~~an entity is~~ required to fit smoke filters to their ~~its~~ factories by 30 June 20X1~~.~~ to protect the health of factory workers. Entities that fail to comply may be subject to fines. An entity that produces smoke in its operations has not started fitting ~~The entity has not fitted the~~ smoke filters by 31 December 20X1.

Management judges that the entity has no practical ability to avoid complying with the terms of the legislation or paying fines that may be charged for non-compliance.

(a) At 31 December 20X0~~, the end of the reporting period~~

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – The three conditions specified in paragraph 14A of IAS 37 are not all met: ~~There is no obligation because there is no obligating event either for the costs of fitting smoke filters or for fines under the legislation.~~

Obligation condition	✓	The legislation imposes responsibilities on the entity if it produces smoke after 30 June 20X1 (paragraph 14B(a)). The entity owes these responsibilities to the government, which acts on behalf of factory workers (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibilities if it produces smoke after 30 June 20X1 (paragraph 14B(c)).
Transfer condition	✗ ✓	**Obligation to fit smoke filters** The obligation to fit smoke filters does not meet the transfer condition. It is an obligation to exchange economic resources, not an obligation to transfer an economic resource (paragraph 14L). In buying and fitting the filters, the entity will pay cash and receive property, plant and equipment in exchange. **Obligation to pay fines** The obligation to pay fines meets the transfer condition. It is an obligation that has the potential to require the entity to pay cash (paragraphs 14I–14J).

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Past-event condition	✗	The entity has not yet taken the action (producing smoke after 30 June 20X1) as a consequence of which it will have to fit smoke filters or may have to pay fines it would not otherwise have had to pay (paragraph 14N). The entity has not yet obtained the economic benefits (received the smoke filters) as a consequence of which it will have to pay for the filters (paragraph 14N).

Conclusion – At 31 December 20X0 no ~~No~~ provision is recognised for the costs of either fitting the smoke filters or paying fines ~~(see paragraphs 14 and 17–19)~~.

(b) At 31 December 20X1~~, the end of the reporting period~~

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – All three conditions specified in paragraph 14A of IAS 37 are now met for the obligation to pay fines, but they are not all met for the obligation to fit smoke filters: ~~There is still no obligation for the costs of fitting smoke filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliant operation of the factory).~~

Obligation condition	✓	As for part (a).
Transfer condition	✗ ✓	**Obligation to fit smoke filters** As for part (a). **Obligation to pay fines** As for part (a).
Past-event condition	✓	The entity has taken the action (producing smoke after 30 June 20X1) as a consequence of which it will have to fit smoke filters and may have to pay fines it would not otherwise have had to pay (paragraph 14N). However, the entity has still not obtained the economic benefits (received the smoke filters) as a consequence of which it will have to pay for the filters (paragraph 14N).

A transfer of economic resources ~~An outflow of resources embodying economic benefits~~ in settlement – The assessment ~~Assessment~~ of the probability of incurring fines and penalties by non-compliant operation depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion – At 31 December 20X1 no ~~No~~ provision is recognised for the costs of fitting smoke filters. However, a provision is recognised for the best estimate of any fines ~~and penalties~~ that are more likely than not to be imposed ~~(see paragraphs 14 and 17–19)~~.

Example 7—Staff retraining as a result of changes in the income tax system

A ~~The~~ government has introduced ~~introduces~~ a number of changes to the income tax system that will be effective from 20X2. As a result of these changes, an entity in the financial services sector will need to retrain a large proportion of its administrative and sales staff ~~workforce in order~~ to ensure continued compliance with financial services regulation in the future. The entity is preparing financial statements for the year ended 31 December 20X0. At the end of the reporting period, no retraining of staff has taken place and the entity has not yet entered into any contracts with training providers.

Management judges that the entity has no practical ability to avoid complying with responsibilities imposed by financial services regulation and by contracts with training providers.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – The three conditions specified in paragraph 14A of IAS 37 are not all met: ~~There is no obligation because no obligating event (retraining) has taken place.~~

Obligation condition	✗	Financial services regulation imposes a responsibility on the entity to provide its services to a specified standard (paragraph 14B(a)). The entity will carry out staff retraining to ensure it continues to provide its services to the specified standard in the future. However, the entity will carry out the retraining for its own benefit, to enable it to keep providing services. It owes no responsibility for retraining to another party (paragraph 14B(b)). A contract with a provider of training services would impose responsibilities on the entity that it would owe to the provider and have no practical ability to avoid discharging (paragraph 14B). However, no such contract yet exists.
Transfer condition	✗	Retraining staff will involve exchanging economic resources, not transferring an economic resource (paragraph 14L). The entity will pay cash to a training provider and receive training services from the provider in exchange.
Past-event condition	✗	The entity has not yet obtained the economic benefits (training services) as a consequence of which it will have to transfer an economic resource (pay the training provider) (paragraph 14N).

Conclusion – No provision is recognised ~~(see paragraphs 14 and 17–19)~~.

Example 8—An onerous contract

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Example 9—A single guarantee

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Example 10—A court case

The law imposes a responsibility on an entity to pay damages if it sells food that poisons consumers. After a wedding in 20X0, ten people died, possibly as a result of food poisoning from products sold by the entity. Legal proceedings have are started seeking damages from the entity but it disputes liability. Up to the date when of authorisation of the financial statements for the year to 31 December 20X0 are authorised for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to 31 December 20X1, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable. Management judges that the entity will have no practical ability to avoid paying damages if it is found liable.

(a) At 31 December 20X0

Present obligation to transfer an economic resource as a result of a past obligating event – The three conditions specified in paragraph 14A of IAS 37 are not all met: On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Obligation condition	✓	The law imposes a responsibility on the entity if it sells food that poisons consumers (paragraph 14B(a)). The entity owes that responsibility to consumers (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it sells food that poisons consumers (paragraph 14B(c)).
Transfer condition	✓	The entity's obligation is to pay damages to poisoned consumers (paragraph 14I).
Past-event condition	Unclear	The past-event condition is met if in 20X0 the entity has sold food that poisoned consumers (paragraph 14N). It is unclear whether the entity has done so. Accordingly, paragraphs 15–16 apply. On the basis of the evidence available when the 20X0 financial statements are authorised for issue, management judges it *is not* more likely than not that the entity has sold food that poisoned consumers. It is possible that the entity has a present obligation that arises from a past event. This possible obligation meets the definition of a contingent liability (paragraph 10).

Conclusion – No provision is recognised at 31 December 20X0 (see paragraphs 15 and 16). The matter is disclosed as a contingent liability unless the probability of any transfer outflow is regarded as remote (paragraph 86).

(b) At 31 December 20X1

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – All three conditions specified in paragraph 14A of IAS 37 are met or deemed to be met: ~~On the basis of the evidence available, there is a present obligation.~~

Obligation condition	✓	As for part (a).
Transfer condition	✓	As for part (a).
Past-event condition	Deemed ✓	As for part (a), except that, on the basis of the evidence available when the 20X1 financial statements are authorised for issue, management now judges it *is* more likely than not that the entity has sold food that poisoned consumers. Consequently, the past-event condition is deemed to have been met (paragraphs 15–16).

A transfer of economic resources ~~**An outflow of resources embodying economic benefits**~~ **in settlement** – Probable.

Conclusion – A provision is recognised at 31 December 20X1 for the best estimate of the amount to settle the obligation to pay damages for selling food that poisoned consumers ~~(paragraphs 14–16)~~.

Example 11—Repairs and maintenance

Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. IAS 16 *Property, Plant and Equipment* sets out requirements for ~~gives guidance on~~ allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Example 11A—Refurbishment costs: no legislative requirement

A furnace has a lining that needs to be replaced every five years for technical reasons. At the end of the reporting period, the lining has been in use for three years.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – The three conditions specified in paragraph 14A of IAS 37 are not all met: ~~There is no present obligation.~~

Obligation condition	✗	No mechanism is in place that imposes on the entity a responsibility that it owes to another party (paragraph 14B). The entity will replace the lining in the furnace for its own benefit.
Transfer condition	✗	Replacing a furnace lining will involve exchanging economic resources, not transferring an economic resource (paragraph 14L). The entity will pay cash and receive a new lining in exchange.

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Past-event condition	✗	The entity has not yet obtained the economic benefits (the replacement lining) as a consequence of which it will have to transfer an economic resource (pay the lining supplier) (paragraph 14N).

Conclusion – No provision is recognised ~~(see paragraphs 14 and 17–19)~~.

~~The cost of replacing the lining is not recognised because, at the end of the reporting period, no obligation to replace the lining exists independently of the company's future actions—even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining.~~ Instead of a provision being recognised, the depreciation of the lining takes account of its consumption, ie it is depreciated over five years. The re-lining costs then incurred are added to the cost of the furnace, ~~capitalised~~ with the consumption of each new lining shown by depreciation over the subsequent five years.

Example 11B—Refurbishment costs: legislative requirement

An airline is required by law to overhaul its aircraft once every three years. It is two years since the airline last overhauled its aircraft. Management judges that the airline has no practical ability to avoid complying with the law.

Present obligation to transfer an economic resource as a result of a past ~~obligating~~ event – The three conditions specified in paragraph 14A of IAS 37 are not all met: ~~There is no present obligation.~~

Obligation condition	✓	A law imposes a responsibility on the airline if it operates aircraft that has not been overhauled for more than three years (paragraph 14B(a)). The airline owes this responsibility to its passengers and to society at large (paragraph 14B(b)). The airline has no practical ability to avoid discharging its responsibility if it operates aircraft that has not been overhauled for more than three years (paragraph 14B(c)).
Transfer condition	✗	The obligation to overhaul aircraft is an obligation to exchange economic resources, not an obligation to transfer an economic resource (paragraph 14L). In overhauling the aircraft, the entity will pay cash in exchange for enhancing the future economic benefits embodied in the aircraft.
Past-event condition	✗	The entity has not yet taken the action (operating aircraft that has not been overhauled for more than three years) as a consequence of which it will have to overhaul aircraft (paragraph 14N). The entity has not yet obtained the economic benefits (aircraft overhaul services) as a consequence of which it will have to pay for the overhaul (paragraph 14N).

Conclusion – No provision is recognised ~~(see paragraphs 14 and 17–19)~~.

~~The costs of overhauling aircraft are not recognised as a provision for the same reasons as the cost of replacing the lining is not recognised as a provision in example 11A. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions—the entity could avoid the future expenditure by its future actions, for example by selling the aircraft.~~ Instead of a provision being recognised, the depreciation of the aircraft takes account of the future incidence of maintenance costs, ie an amount equivalent to the expected maintenance costs is depreciated over three years.

Example 12—Liabilities arising from participating in a specific market: waste electrical and electronic equipment

In 20X3 a country enacts legislation requiring entities that manufacture and sell specified types of electrical and electronic equipment (specified equipment) in that country to contribute to the costs of disposal of the equipment at the end of its life. One section of the legislation applies to equipment sold before the legislation was enacted (historical equipment). It specifies that the disposal costs for historical equipment will be borne by entities selling specified equipment in 20X5. Costs will be allocated to each entity in proportion to its share of the country's market for specified equipment that year—regardless of whether the entity sold any of the historical equipment, or how much it sold.

An entity that manufactured and sold historical equipment is preparing financial statements for the year ended 31 December 20X3. The entity continues to sell specified equipment and management judges that it has no practical ability to withdraw from the market before 20X5.

Present obligation to transfer an economic resource as a result of a past event – The three conditions specified in paragraph 14A of IAS 37 are not all met:

Obligation condition	✓	The legislation imposes a responsibility on the entity if it sells specified equipment in 20X5 (paragraph 14B(a)). The responsibility is owed to the country's government, which acts on behalf of society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it sells specified equipment in 20X5 (paragraph 14B(c)).
Transfer condition	✓	The entity's obligation is to pay a contribution to disposal costs for historical equipment (paragraph 14I).
Past-event condition	✗	The entity's past manufacture and sale of historical equipment has no bearing on the entity's obligation—disposal costs for historical equipment are allocated without reference to the source of the equipment. Only one action (selling specified equipment in 20X5) will require the entity to transfer an economic resource it would not otherwise have had to transfer (paragraph 14N). The entity has not yet taken this action.

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Conclusion – No provision is recognised at 31 December 20X3.

Example 13A—A levy on revenue

Legislation imposes a levy on entities that generate revenue in a specific market. The amount of the levy is a percentage of the revenue an entity generates in the market in the year to 31 December 20X0. However, only entities that are operating in the market on 1 January 20X1 are within the scope of the levy, and the levy is charged in full on that date. An entity receives no economic resources in exchange for paying the levy.

An entity's reporting period ends on 30 June 20X0. The entity has generated revenue in the market throughout the six months to 30 June 20X0. When preparing the entity's financial statements for the year to 30 June 20X0 management:

(a) assesses all the terms of the legislation and concludes that the requirement to pay the levy is a consequence of taking two separate actions—generating revenue in the market in 20X0 and operating in the market on 1 January 20X1. Both actions are required for the levy to be payable.

(b) judges that the entity has no practical ability to avoid paying the levy if it takes the two actions.

(c) judges that the entity has no practical ability to avoid the second action because the economic consequences for the entity of exiting the market before 20X1 would be significantly more adverse than the cost of paying the levy charged on revenue generated in 20X0.

Present obligation to transfer an economic resource as a result of a past event – All three conditions specified in paragraph 14A of IAS 37 are met:

Obligation condition	✓	The legislation imposes a responsibility on the entity if it takes two separate actions—generating revenue in the market in 20X0 and operating in the market on 1 January 20X1 (paragraph 14B(a)). The entity owes this responsibility to the government, which acts on behalf of society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it takes the two actions (paragraph 14B(c)).
Transfer condition	✓	The entity's obligation is to pay a levy without receiving an economic resource in exchange (paragraph 14I).

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Past-event condition	✓	The entity is required to pay a levy if it takes two separate actions—generating revenue in the market in 20X0 and operating in the market on 1 January 20X1. At 30 June 20X0 the entity has taken the first action and has no practical ability to avoid taking the second action (paragraph 14Q). The entity generates revenue throughout the 6 months to 30 June 20X0. Consequently, the past-event condition is met, and the resulting present obligation accumulates, over that time (paragraph 14O). At 30 June 20X0 the entity's present obligation is to pay the levy attributable to the revenue it has generated by that date.

A transfer of economic resources in settlement – Probable.

Conclusion – At 30 June 20X0 a provision is recognised for the levy attributable to revenue generated by that date.

Example 13B—A levy on an entity operating as a bank on the last day of its annual reporting period

A government charges a levy on banks. Any entity that is operating as a bank on the last day of its annual reporting period is within the scope of the levy. The amount of the levy is calculated by reference to the amounts in an entity's statement of financial position at the end of that reporting period. If the reporting period is longer or shorter than 12 months, the levy is increased or reduced proportionately—for example, if an entity has a nine-month reporting period, the levy is $9/12^{ths}$ of the initial amount calculated. An entity receives no economic resources in exchange for paying the levy.

At the start of an entity's current annual reporting period, the entity is operating as a bank. Management:

(a) assesses all the terms of the legislation and concludes that the requirement to pay the levy is a consequence of the entity taking two separate actions—operating in its current annual reporting period and operating as a bank on the last day of that period. Both actions are required for the levy to be payable.

(b) judges that the entity has no practical ability to avoid paying the levy if it takes the two actions.

(c) judges that the entity has no practical ability to avoid the second action because the economic consequences for the entity of ceasing banking activities before the end of the annual reporting period would be significantly more adverse than the cost of paying the levy charged for that period.

Present obligation to transfer an economic resource as a result of a past event – All three conditions specified in paragraph 14A of IAS 37 are met:

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Obligation condition	✓	The legislation imposes a responsibility on the entity if it takes two separate actions—operating in its current annual reporting period and operating as a bank on the last day of that period (paragraph 14B(a)). The entity owes the responsibility to the government, which acts on behalf of society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it takes the two actions (paragraph 14B(c)).
Transfer condition	✓	The entity's obligation is to pay a levy without receiving an economic resource in exchange (paragraph 14I).
Past-event condition	✓	The entity is required to pay a levy if it takes two separate actions—operating in its current annual reporting period and operating as a bank on the last day of that period. From the start of the current annual reporting period, the entity starts to take the first action and has no practical ability to avoid the second action (paragraph 14Q). Because the extent of the entity's obligation depends on the length of its annual reporting period, the present obligation accumulates over the annual reporting period (paragraph 14O).

A transfer of economic resources in settlement – Probable.

Conclusion – At the end of the annual reporting period a provision is recognised for the best estimate of the levy that will be charged for the reporting period.

Example 13C—A property tax

Legislation imposes an annual property tax on land and buildings held for business use. The tax is payable by the party that owns the land and buildings on 31 December each year. The tax is calculated after that date and has to be paid by 30 June in the following year. The owner of the land and buildings on 31 December remains liable to pay the full amount of the tax even if it sells the land and buildings, or changes their use, after that date. The owner receives no economic resources in exchange for paying the tax.

Under the legislation, the amount of tax payable is determined by reference to a specific measure of the value of the land and buildings. The measure is the price paid for the land and buildings by the current owner, increased by the change in a specified price index between the purchase date and the date on which the tax is charged.

On 31 December 20X5 an entity owns and holds for business use land and buildings it bought in 20X0.

When preparing the entity's financial statements for the year ended 31 December 20X5 management:

(a) assesses all the terms of the legislation and concludes that the requirement to pay the tax is a consequence of the entity taking only one action—owning and holding land and buildings for business use on 31 December 20X5. Although buying the land and buildings at an earlier date affects the amount of tax payable,

it is not an action required for tax to be payable—the tax is payable regardless of when land and buildings were bought.

(b) judges that the entity has no practical ability to avoid paying the tax on the land and buildings it owns and holds for business use on 31 December 20X5.

Present obligation to transfer an economic resource as a result of a past event – All three conditions specified in paragraph 14A of IAS 37 are met:

Obligation condition	✓	The legislation imposes a responsibility on the entity if it owns land and buildings on 31 December 20X5 and holds them for business use on that date (paragraph 14B(a)). The entity owes the responsibility to the government, which acts on behalf of society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibility if it meets the ownership and use conditions (paragraph 14B(c)).
Transfer condition	✓	The entity's obligation is to pay a tax without receiving an economic resource in exchange (paragraph 14I).
Past-event condition	✓	As a consequence of owning land and buildings on 31 December 20X5 and holding them for business use on that date, the entity will have to pay a tax it would not otherwise have had to pay (paragraph 14N). The past-event condition is met on 31 December 20X5.

A transfer of economic resources in settlement – Probable.

Conclusion – A provision is recognised on 31 December 20X5 for the full amount of the tax expected to be charged on land and buildings owned on that date.

Example 14—Negative low-emission vehicle credits

A government's legislation applies to entities that produce cars for sale in a specific market in the calendar year 20X0. Under the legislation, these entities:

(a) receive positive credits if in that year they have manufactured cars whose average fuel emissions are *lower* than a government target; or

(b) receive negative credits if in that year they have manufactured cars whose average fuel emissions are *higher* than the target.

The legislation requires an entity that receives negative credits for 20X0 to eliminate those negative credits by obtaining and surrendering positive credits. An entity can obtain positive credits either by buying them from another entity or by generating them itself in 20X1 (by manufacturing in 20X1 cars with average fuel emissions lower than the government target).

Under the legislation, the government cannot force an entity to eliminate its negative credits, but can impose sanctions on an entity that fails to do so. These sanctions would not require payment of fines, or any other transfer of economic resources, but would restrict the entity's access to the market in 20X2 and later years.

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An entity is preparing its financial statements for the year ended 31 December 20X0. In that year, it has produced vehicles with average fuel emissions higher than the government target, so it will receive negative credits. Management expects that the economic consequences for the entity of restricted market access would be significantly more adverse than the costs of obtaining and surrendering enough positive credits to eliminate the negative credits due for 20X0. Management expects the entity to generate the positive credits itself (thus avoiding the need to buy them) by manufacturing in 20X1 cars with average fuel emissions lower than the government target.

Present obligation to transfer an economic resource as a result of a past event – All three conditions specified in paragraph 14A of IAS 37 are met:

Obligation condition	✓	The legislation imposes a responsibility on the entity if in 20X0 it manufactures cars whose average fuel emissions are higher than the government target (paragraph 14B(a)). The entity owes this responsibility to the government, which acts on behalf of society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging this responsibility because the economic consequences for the entity of restricted market access are expected to be significantly more adverse than the costs of obtaining and surrendering enough positive credits to eliminate the negative credits due for 20X0 (paragraphs 14B(c) and 14F(a)).
Transfer condition	✓	The entity's obligation is to surrender positive credits. An entity that surrenders positive credits to eliminate negative credits is transferring an economic resource, even if the entity has generated the positive credits as part of its manufacturing activities (paragraph 14I). Positive credits are an economic resource however obtained—they enable an entity to settle an obligation to eliminate negative credits, and if the entity were not required to use the positive credits in this way, it could have sold them to other entities.
Past-event condition	✓	The entity has taken the action as a consequence of which it will have to surrender positive credits it would not otherwise have had to surrender (paragraph 14N). That action is manufacturing in 20X0 cars whose average fuel emissions are higher than the government target.

A transfer of economic resources in settlement – Probable.

Conclusion – At 31 December 20X0 a provision is recognised for the best estimate of the expenditure required to obtain and surrender enough positive credits to eliminate the negative credits due for 20X0.

Example 15—Climate-related commitments

In 20X0 an entity that manufactures household products publicly states its commitments:

(a) to gradually reduce its annual greenhouse gas emissions, reducing them by at least 60% of their current level by 20X9; and

(b) to offset its remaining annual emissions in 20X9 and in later years by buying carbon credits and retiring them from the carbon market.

To support its statement, the entity publishes a transition plan setting out how it will gradually modify its manufacturing methods between 20X1 and 20X9 to achieve the 60% reduction in its annual emissions by 20X9. The modifications will involve investing in more energy-efficient processes, buying energy from renewable sources and replacing petroleum-based product ingredients and packaging materials with lower-carbon alternatives. Management is confident that the entity can make all these modifications and continue to sell its products at a profit.

In addition to publishing the transition plan, the entity takes several other actions that publicly affirm its commitments.

Having considered all the facts and circumstances of the entity's commitments—including the actions it has taken to affirm them—management judges that the entity's statement has created a valid expectation in society at large that the entity will fulfil the commitments, and hence that it has no practical ability to avoid doing so (paragraph 14F(b)).

The entity is preparing financial statements for the year ended 31 December 20X0.

Present obligation to transfer an economic resource as a result of a past event – The three conditions specified in paragraph 14A of IAS 37 are not all met:

Obligation condition	✓	The entity's public statement of its commitments imposes on the entity responsibilities: (a) to operate in the future in a way that reduces its annual greenhouse gas emissions; and (b) to offset its remaining emissions if it emits greenhouse gases in 20X9 and later years (paragraph 14B(a)). The entity owes those responsibilities to society at large (paragraph 14B(b)). The entity has no practical ability to avoid discharging its responsibilities (paragraph 14B(c)). The obligations meet the definition of a constructive obligation (paragraph 10).

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Transfer condition	✗	**Obligation to reduce emissions** The entity's obligation to operate in the future in a way that reduces its greenhouse gas emissions is not an obligation to transfer an economic resource. Although the entity will incur expenditure in changing the way it operates, it will receive other economic resources—for example, property, plant and equipment, energy, product ingredients or packaging materials—in exchange, and will be able to use these resources to manufacture products it can sell at a profit (paragraph 14L).
	✓	**Obligation to offset remaining emissions** The entity's obligation to offset its remaining annual greenhouse gas emissions in 20X9 and later years is an obligation to transfer an economic resource. The entity will be required to buy and retire carbon credits without receiving any economic resources in exchange (paragraph 14I).
Past-event condition	✗	**Obligation to offset remaining emissions** The entity has not yet taken the action (emitting gases in 20X9 or in a later year) as a consequence of which it will have to buy and retire carbon credits it would not otherwise have had to buy or retire (paragraph 14N).

Conclusion – No provision is recognised at 31 December 20X0.

If the entity emits greenhouse gases in 20X9 and in later years, it will incur a present obligation to offset these past emissions when it emits the gases. If, at that time, the entity has not settled the present obligation and it is probable that it will have to transfer an economic resource to do so, the entity will recognise a provision for the best estimate of the expenditure required.

Although the entity does not recognise a provision for its constructive obligations at 31 December 20X0, the actions it plans to take to fulfil the obligations could affect the amounts at which it measures its other assets and liabilities (for example, its property, plant and equipment), and the information it discloses about them, as required by various IFRS Accounting Standards.

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November 2024

Exposure Draft

IFRS® Accounting Standard

Basis for Conclusions on Provisions—Targeted Improvements

Proposed amendments to IAS 37

Comments to be received by 12 March 2025

International Accounting Standards Board

IASB/ED/2024/8

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Basis for Conclusions on Exposure Draft *Provisions—Targeted Improvements*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft Provisions—Targeted Improvements. *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

BC1 In 2020 the IASB added a standard-setting project to its work plan, with the objective of making three targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*:

(a) aligning the definition of a liability and the recognition criterion that applies that definition with the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) issued in 2018; and

(b) specifying two aspects of the requirements for measuring a provision:

(i) the costs an entity includes in its estimate of the future expenditure required to settle the present obligation; and

(ii) the rate an entity uses to discount that future expenditure to its present value.

BC2 For each topic, the IASB developed options for possible amendments and consulted stakeholders before making tentative decisions on the proposals included in the Exposure Draft. These stakeholders included:

(a) users of financial statements (investors), including the IASB's Capital Markets Advisory Committee and other groups of equity and debt analysts;

(b) preparers of financial statements, including the IASB's Global Preparers Forum and preparers of the financial statements of entities that could be most affected by the proposed amendments—entities operating in sectors that are subject to levies and entities reporting large long-term asset decommissioning or environmental rehabilitation obligations;

(c) national and regional standard-setting bodies, including the IASB's Accounting Standards Advisory Forum and Emerging Economies Group; and

(d) members of the IFRS Interpretations Committee.

Definitions and present obligation recognition criterion

BC3 The IASB proposes to amend:

(a) the definition of a liability in IAS 37;

(b) the recognition criterion in IAS 37 that uses that definition; and

(c) the supporting guidance in the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets (*Guidance on implementing IAS 37*).

Reasons for proposing amendments

BC4 One of the criteria in IAS 37 for recognising a provision is that the entity has an obligation that meets the definition of a liability. Paragraph 14(a) of IAS 37 requires that the entity has a present obligation (legal or constructive) as a result of a past event (present obligation recognition criterion).

BC5 Paragraphs 17–22 of IAS 37 set out requirements for identifying when an entity has such an obligation, and examples in the *Guidance on implementing IAS 37* illustrate the application of those requirements.

BC6 The IASB is proposing to amend the requirements and examples supporting the present obligation recognition criterion because of:

(a) difficulties faced by preparers of financial statements in disentangling two distinct conditions within the criterion (paragraphs BC8–BC12);

(b) stakeholder dissatisfaction with IFRIC 21 *Levies*, which interprets the present obligation recognition criterion (paragraphs BC13–BC14); and

(c) difficulties in applying the requirements to laws and regulations with novel enforcement mechanisms or settlement options (paragraphs BC15–BC16).

BC7 The proposed amendments would affect only the present obligation recognition criterion. They would not affect the other two recognition criteria in IAS 37, which would continue to require an entity to recognise a provision only if:

(a) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation (paragraph 14(b) of IAS 37); and

(b) a reliable estimate can be made of the amount of the obligation (paragraph 14(c) of IAS 37).

Difficulties in disentangling two distinct conditions within the present obligation recognition criterion

BC8 Paragraphs 17–22 of IAS 37 identify two conditions within the present obligation recognition criterion:

(a) an obligation condition—there exists a mechanism, for example, a law or a policy the entity has published, that imposes responsibilities on the entity and leaves the entity with no realistic alternative to discharging those responsibilities if a specific event occurs; and

(b) a past-event condition—the specific event has occurred and consequently the obligation is a present obligation.

BC9 The obligation and past-event conditions are distinct—the obligation condition relates to the strength of the mechanism that requires the entity to settle a present obligation once it has arisen, whereas the past-event condition relates to the timing of the event that gives rise to the present obligation. However, although the obligation and past-event conditions are distinct, IAS 37 does not identify them separately. Instead, it combines them into a single requirement for an 'obligating event', which paragraph 10 in IAS 37 defines as 'an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation'. The supporting explanations in paragraphs 17–22 of IAS 37 also combine explanations of the obligation and past-event conditions.

BC10 Application problems arise because it can be unclear which condition an explanation refers to, so an explanation of one condition can appear to apply to the other condition. For example, paragraph 19 of IAS 37 refers to an entity having no present obligation if it can avoid future expenditure through its future actions. It is unclear whether this reference applies to actions the entity could take to avoid creating a present obligation (the past-event condition) or to actions it could take to avoid settling the obligation (the obligation condition).

BC11 In response to requests for more guidance for specific fact patterns, the IFRS Interpretations Committee has issued:

(a) two IFRIC® Interpretations: IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21; and

(b) Agenda Decision *Climate-related Commitments* (IAS 37).

BC12 In each case, the IFRS Interpretations Committee applied paragraph 19 of IAS 37 and concluded that an entity does not have a present obligation until it takes the action that triggers a requirement to discharge a responsibility (for example, to pay a levy or to offset greenhouse gas emissions), even if before then the entity would have had no realistic alternative other than to take that action. However, in each case, the conclusions and their rationale would have been easier to explain if IAS 37 more clearly distinguished the obligation condition from the past-event condition.

Stakeholder dissatisfaction with IFRIC 21

BC13 IFRIC 21 includes requirements for circumstances in which a levy is charged only if an entity takes two or more specific actions—for example, if an entity generates revenue in a market in one year and is still operating in that market on a specific date in the next year. IFRIC 21 concludes that a liability to pay the levy arises, and hence a provision is recognised, only when the entity takes the last of those actions, triggering the charge.

BC14 However, IFRIC 21 has been widely criticised by investors, preparers and auditors of financial statements, and national standard-setters. It results in entities recognising some recurring periodic levies as expenses at a single point in time late in the period for which they are charged, or even after the end of that period. Stakeholders have expressed concern about this outcome

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because, in their view, the substance of a recurring levy is that the entity is paying to operate over a period, and this substance would be more faithfully represented if entities recognised the expense systematically over that period. Stakeholders have also noted that the requirements in IFRIC 21 are inconsistent with requirements in IFRS Accounting Standards for other types of costs that are triggered only when an entity takes the last of two or more specific actions—for example, requirements in IFRS 2 *Share-based Payment* and IAS 19 *Employee Benefits.*

Difficulties in applying the requirements to laws and regulations with novel enforcement mechanisms or settlement options

BC15 Further questions have arisen recently because some new laws and regulations have features that differ from those of conventional laws. For example:

(a) the obligations arising under some climate-related regulations are not conventionally enforceable. An entity might not be required to comply with the regulations but might have a strong economic incentive to do so.

(b) an entity might be able to settle its obligations in a novel way—for example, by changing its future operations instead of by paying penalties.

BC16 The IFRS Interpretations Committee considered the implications of such features when asked to analyse government measures to encourage vehicle producers to produce low-emission vehicles. Although the Committee concluded in Agenda Decision *Negative Low Emission Vehicle Credits* (IAS 37) that IAS 37 provides an adequate basis to determine the required accounting, the conclusions and their rationale would have been easier to explain if IAS 37:

(a) more clearly distinguished and explained the obligation and past-event conditions within the present obligation recognition criterion.

(b) provided clearer application guidance on the factors to consider in assessing whether an entity has a realistic alternative to settling an obligation. Currently, paragraph 17 of IAS 37 states that it is necessary that a legal obligation 'can be enforced by law'. However, IAS 37 does not clarify how to interpret this statement if a counterparty cannot use the courts to enforce compliance but has a legal right to impose economic sanctions that might leave an entity with no realistic alternative other than to comply.

Revisions to the *Conceptual Framework*

BC17 The criticisms of IFRIC 21 described in paragraph BC14 highlight a question the IASB has considered in developing various IFRS Accounting Standards—whether and, if so, when a liability arises for an obligation that depends on an entity taking two or more separate actions. The IASB decided to answer this question as part of its project to revise the *Conceptual Framework* because the same question arises for various types of transactions—for example, share-based payments, variable lease payments and purchases subject to variable or

contingent consideration. The IASB added concepts to address this question to the *Conceptual Framework* in 2018.

BC18 Although the IASB designed these concepts to have general applicability, it developed them with IAS 37 in mind. The IASB included concepts in the *Conceptual Framework* that it could apply in developing requirements for IAS 37 that would be clearer and result in more useful information for investors.

BC19 The *Conceptual Framework*:

(a) has an updated definition of a liability;

(b) distinguishes three conditions within the definition of a liability—obligation, transfer and past-event conditions—and explains each of these three conditions separately without referring to obligating events;

(c) identifies various circumstances in which an entity might have no realistic alternative to settling an obligation, considering the role of economic incentives; and

(d) provides new concepts for identifying the past event that gives rise to a present obligation.

BC20 The *Conceptual Framework* uses different terminology from that in IAS 37, referring to an entity's 'practical ability to avoid' an obligation rather than its 'realistic alternative to settling' the obligation. However, the Basis for Conclusions on the *Conceptual Framework* clarifies that the IASB viewed these two terms as having a similar meaning.[1]

Proposed amendments to IAS 37

BC21 The amendments proposed in the Exposure Draft use the concepts added to the *Conceptual Framework* to address the problems described in paragraphs BC8–BC16. The proposed amendments consist of:

(a) updating the definition of a liability to align it with the definition in the *Conceptual Framework* (paragraphs BC22–BC24);

(b) aligning the wording of the present obligation recognition criterion with the updated definition of a liability (paragraph BC25);

(c) removing the term 'obligating event' and instead identifying and explaining three conditions (obligation, transfer and past-event conditions) within the present obligation recognition criterion (paragraphs BC26–BC33);

(d) redefining a past event (paragraphs BC34–BC36);

(e) adding requirements for threshold-triggered costs (paragraphs BC37–BC47); and

1 See paragraph BC4.57 of the Basis for Conclusions on the *Conceptual Framework for Financial Reporting*.

(f) improving the wording of the requirements for restructuring costs without changing the substance of those requirements (paragraphs BC48–BC52).

Updating the definition of a liability

BC22 The IASB proposes to update the definition of a liability in paragraph 10 of IAS 37 to align it with the definition in paragraph 4.2 of the *Conceptual Framework*.

BC23 IAS 37 is the only IFRS Accounting Standard that uses a definition of a liability that predates the *Conceptual Framework* definition. Updating the definition in IAS 37 would result in IFRS Accounting Standards using a single definition of a liability, which could reduce complexity for preparers of financial statements. For example, in developing an accounting policy for a transaction not specifically addressed by any IFRS Accounting Standard, preparers would no longer be required to decide whether to apply the IAS 37 definition or the *Conceptual Framework* definition.

BC24 Updating the definition of a liability in paragraph 10 of IAS 37 would require minor consequential amendments to various other paragraphs in IAS 37 that include words or phrases from the definition. These consequential amendments are set out in Appendix A to the Exposure Draft.

Aligning the wording of the present obligation recognition criterion with the updated definition of a liability

BC25 The present obligation recognition criterion in paragraph 14(a) of IAS 37 is a requirement for an entity to have an obligation that meets the definition of a liability. The IASB proposes to align the wording of this criterion with the updated definition of a liability to make that relationship clearer.

Identifying three conditions within the present obligation recognition criterion

BC26 To clarify the present obligation recognition criterion, the IASB proposes to remove the requirement for an obligating event (paragraph 17 of IAS 37) and replace it with a requirement to meet the three distinct conditions—obligation, transfer and past-event conditions—identified in paragraph 4.27 of the *Conceptual Framework* (paragraph 14A of the Exposure Draft).

BC27 The IASB proposes separate sections of requirements to support each of the conditions. In developing these requirements, the IASB has applied concepts set out in the corresponding sections of the *Conceptual Framework*.

Clarifying the requirements supporting the obligation condition

BC28 Paragraph 4.29 of the *Conceptual Framework* defines an obligation as 'a responsibility that an entity has no practical ability to avoid'. In paragraph 14B of the Exposure Draft, the IASB proposes to use that definition as the basis for the definition in IAS 37. The IASB has previously concluded that the meaning of 'no practical ability to avoid' is similar to that of 'no realistic alternative to settling' (see paragraph BC20). Therefore, it does not expect the change in terminology to change the outcomes of applying IAS 37.

BC29 The paragraphs explaining the obligation condition (paragraphs 14B–14H of the Exposure Draft) have two main aims. The first aim is to clarify that the 'no practical ability to avoid' requirement in the obligation condition refers to an entity's ability to avoid discharging a responsibility *if* it obtains specific benefits or takes a specific action, not its ability to avoid obtaining those benefits or taking that action. In other words, the obligation condition requires an assessment of the entity's practical ability to avoid settling an obligation once that obligation has been created, not the entity's practical ability to avoid obtaining the benefits or taking the action that creates the obligation. The entity's ability to avoid obtaining the benefits or taking the action is considered separately, in applying the past-event condition.

BC30 A second aim of the paragraphs supporting the obligation condition is to clarify the circumstances in which an entity has no practical ability to avoid discharging a legal responsibility. The IASB proposes to remove the statement specifying that it is necessary that settlement of a legal obligation 'can be enforced by law' (paragraph 17 of IAS 37) because the phrase 'enforced by law' has proved difficult to apply to some types of obligations within the scope of IAS 37. The phrase can be interpreted narrowly, to mean that the counterparty can use the courts to enforce compliance (see paragraph BC16(b)). For some types of obligations within the scope of IAS 37, this narrow interpretation might be inconsistent with the broader notion of 'no practical ability to avoid'—an entity might have no practical ability to avoid discharging a legal obligation for reasons other than the counterparty's ability to use the courts to enforce compliance.

BC31 In paragraph 14F(a) of the Exposure Draft, the IASB proposes to replace the requirement that a legal obligation can be 'enforced by law' with a more detailed description of circumstances in which an entity would have no practical ability to avoid discharging a legal obligation. The proposed description is based on concepts in paragraph 4.34 of the *Conceptual Framework*. These concepts focus on the effects of the counterparty's rights on the entity's ability to avoid discharging a legal responsibility, not on the form of the rights.

Adding requirements to support the transfer condition

BC32 The proposed new explanation of the transfer condition (paragraphs 14I–14L of the Exposure Draft) reflects concepts from the *Conceptual Framework*. The IASB proposes to add these concepts to explain:

(a) the need for the obligation to have only the potential to require a transfer of an economic resource—a transfer need not be certain or even likely;

(b) the consequences of uncertainty about whether the obligation will require a transfer of an economic resource; and

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(c) the reason that a provision is recognised for an obligation to exchange resources only if the exchange is unfavourable to the entity—for example, if an executory contract is onerous. No provision is recognised in other circumstances because the obligation does not meet the transfer condition.

BC33 In paragraph 3 of the Exposure Draft, the IASB proposes to amend the description of an executory contract to align it with the definition in paragraph 4.56 of the *Conceptual Framework*. This amendment is intended only to eliminate an unnecessary wording difference within IFRS Accounting Standards. It is not intended to change the meaning of the term executory contract as it is applied in IAS 37.

Redefining a past event

BC34 In paragraphs 14M–14R of the Exposure Draft, the IASB proposes new requirements for identifying the past event that gives rise to a present obligation. The IASB developed those requirements by applying concepts in paragraphs 4.43–4.44 and 4.32–4.33 of the *Conceptual Framework*. The proposed requirements aim to address the criticisms of IFRIC 21 discussed in paragraphs BC13–BC14—in particular, the criticisms relating to the outcomes of applying IFRIC 21 to levies charged only if an entity takes two or more specific actions. The proposed requirements would replace the current requirements in paragraph 19 of IAS 37, and IFRIC 21 would be withdrawn.

BC35 The proposed requirements would change the timing of recognition of some provisions. The timing would change for a transfer of economic resources that is required only if an entity takes two or more separate actions. Currently, an entity applying paragraph 19 of IAS 37, as interpreted by IFRIC 21, is regarded as having met the past-event condition only when it has taken the *last* of the required actions, thus triggering the transfer. In contrast, an entity applying the proposed requirements would be regarded as having met the past-event condition as soon as it had taken *any* of the actions and if it had no practical ability to avoid the remaining actions. Assuming the other recognition criteria are met, the latter entity might recognise a provision earlier and might accrue that provision progressively instead of recognising it at a point in time. The aim of the proposed requirements is to provide more useful information to investors, as explained in paragraphs BC4.51–BC4.52 of the Basis for Conclusions on the *Conceptual Framework*.

BC36 The IASB noted that whether an entity's obligation to transfer an economic resource requires only one action of the entity (perhaps taken over time), or a combination of two or more separate actions, will depend on the precise facts of the mechanism that has created the obligation—for example, the precise terms of a contract or requirements of legislation. Management would reach a conclusion by assessing all the relevant facts of the mechanism, including, for example, facts about the effects on the obligation of variations in an entity's circumstances.

Adding requirements for threshold-triggered costs

BC37 In paragraph 14P of the Exposure Draft, the IASB proposes to add to IAS 37 requirements for costs payable if a measure of an entity's activity in a specific period exceeds a specific threshold (threshold-triggered costs). The proposed requirements aim to clarify when the past-event condition is met for such costs.

BC38 Examples of such costs are:

(a) levies payable by larger entities operating within a market—for example, levies payable by entities whose annual revenue exceeds a specific amount; and

(b) some costs imposed by pollutant pricing mechanisms and other climate-related regulations—for example, penalties imposed on an entity whose greenhouse gas emissions in a specific assessment period exceed a quota allocated to that entity.

BC39 Stakeholders have told the IASB that specific requirements are necessary for threshold-triggered costs because:

(a) such costs are common in some sectors—for example, pharmaceutical or oil and gas—and are becoming more common because they are a feature of some climate-related regulations;

(b) questions arise in practice about whether the past-event condition for a threshold-triggered cost is met:

(i) when an entity starts to carry out the activity that contributes to the total activity on which the cost is assessed (if the entity expects that activity to exceed the threshold in the assessment period); or

(ii) only when the entity's activity exceeds the threshold;

(c) without specific requirements, there is a risk of inconsistent application of the more general requirements in IAS 37; and

(d) specific requirements would be especially useful for interim financial statements.

BC40 The requirements proposed in paragraph 14P of the Exposure Draft are an interpretation of the more general requirements proposed in paragraph 14N, which state that an entity has a present obligation as a result of a past event when it:

(a) has obtained specific economic benefits or taken a specific action; and

(b) as a consequence, will or may have to transfer an economic resource it would not otherwise have had to transfer.

BC41 The requirements proposed in paragraph 14P of the Exposure Draft are based on the IASB's conclusion that the action that satisfies the past-event condition is all activity that contributes to the total activity on which the cost is assessed, both activity below the threshold and activity above the threshold.

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The consequence of this conclusion is that the past-event condition starts to be met as soon as an entity starts carrying out the activity that contributes to the total being assessed. The present obligation accumulates as that activity progresses.

BC42 The IASB is proposing these requirements having concluded that, regardless of whether an entity's activity at a date within the assessment period is below or above the threshold, the fact that the entity has carried out activity that takes it towards or further above the threshold affects the costs it might incur. An entity whose activity is closer to the threshold might incur a cost that it would not have incurred without that activity.

BC43 Some stakeholders the IASB consulted expressed a view that an entity should recognise a provision for a threshold-triggered cost only when the entity's activity exceeds the threshold. These stakeholders said that:

(a) estimating the amount of the obligation before the activity exceeds the threshold could be difficult and costly for preparers of financial statements, especially in borderline cases—for example, if the threshold is unlikely to be exceeded until near the end of the assessment period.

(b) the resulting estimates could be highly subjective, especially if there is a lack of historical information on which to base estimates or a history of poor judgement by management. In some cases, an entity might recognise a provision in one period and reverse it in a later period if expectations change.

(c) a requirement to recognise a provision only after an entity's activity exceeds the threshold would be clearer and easier to apply.

BC44 However, the IASB concluded that:

(a) a present obligation for a threshold-triggered cost starts to arise when an entity starts to carry out the activity on which the cost is assessed.

(b) accruing a provision based on the expected cost attributable to each unit of activity would provide useful information to investors. In contrast, recognising a provision only after the threshold has been met could provide misleading information to investors. Recognition at this stage might not faithfully represent the entity's financial performance and financial position in its (interim) financial statements for periods before and after the threshold is met.

BC45 The IASB further noted that an entity applying the proposed amendments would not necessarily recognise a provision before its activity exceeded the threshold. The entity would recognise a provision only if the other recognition criteria in IAS 37 were also met, that is, if:

(a) it were probable that a transfer of economic resources would be required to settle the obligation (paragraph 14(b) of IAS 37); and

(b) a reliable estimate could be made of the amount of the obligation (paragraph 14(c) of IAS 37).

BC46 The IASB concluded that, as a consequence, an entity would recognise a provision for a threshold-triggered cost only if:

(a) the entity's activity for the assessment period were expected to exceed the threshold; and

(b) the entity could make a forecast of the total activity for the assessment period that was sufficiently reliable to use in recognising the provision (as required by paragraph 25 of IAS 37).

BC47 The requirements proposed in paragraph 14P of the Exposure Draft are consistent with:

(a) requirements in IAS 12 *Income Taxes* for measuring tax liabilities when different tax rates apply to different levels of taxable income; and

(b) requirements in IAS 19 for employee profit-sharing and bonus payments payable only if specific conditions are met.

IAS 12 and IAS 19 treat the liability as arising in the period in which the entity generates taxable income or receives employee services, and they require liabilities to be recognised by estimating and apportioning the total amounts expected to be payable for that period.

Improving the wording of the requirements for restructuring costs

BC48 Paragraphs 70–83 of IAS 37 set out recognition requirements for restructuring provisions. They:

(a) require an entity to recognise a restructuring provision when it has a 'constructive obligation to restructure'; and

(b) state that a constructive obligation to restructure arises when an entity has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

BC49 The IASB has become aware that inappropriate analogies are being drawn from these requirements because the wording implies that the public announcement of a restructuring plan is enough to meet the past-event condition and thus create a present obligation for restructuring costs. By analogising to the requirements for restructuring provisions, stakeholders have sometimes concluded that an entity that has publicly announced a plan to change its operations in the future—for example, to reduce its annual greenhouse gas emissions in future years—has a present obligation for the future costs of changing its operations.

BC50 The IASB has concluded that some of the wording of the requirements in IAS 37 for restructuring provisions contributes to the misunderstanding. IAS 37 should not refer to a 'constructive obligation to restructure' because:

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(a) restructuring is an activity implemented for the benefit of the entity, not an obligation owed to another party. An entity does not have an obligation to restructure but rather might have obligations to discharge specific responsibilities *if* it restructures—for example, to pay redundancy costs to employees whose employment is terminated as part of the restructuring.

(b) the obligations arising from a restructuring are not necessarily constructive. They are created by mechanisms other than the implementation or announcement of a restructuring plan. The mechanism creating an obligation could be:

(i) legal—for example, a statutory or contractual requirement to pay termination benefits to employees; or

(ii) constructive—for example, an entity's statement that it will provide employees with termination benefits beyond those to which the employees are legally entitled.

(c) the obligations are present obligations (meaning the past-event condition is met) only if the requirement to pay the restructuring costs is a consequence of the entity:

(i) having obtained specific economic benefits or taken a specific action in the past—for example, having employed and obtained services from employees in the past; and

(ii) having no practical ability to avoid a second specific action required to trigger the payments—for example, making these employees redundant—because it has no practical ability to avoid the restructuring.

BC51 The IASB has concluded that although some of the wording of the restructuring requirements in IAS 37 appears inconsistent with the analysis in paragraph BC50, the requirements themselves are consistent with that analysis. The requirements in IAS 37 are such that for a provision to be recognised, it is necessary that the entity has announced or started to implement a restructuring plan, and thus has no practical ability to avoid the restructuring. It is also necessary that the costs included in the provision arise from the entity having taken a specific action or obtained specific benefits in the past—for example, having employed and obtained services from employees in the past. This requirement is reflected in paragraph 80 of IAS 37, which requires entities to exclude from a restructuring provision costs associated with the ongoing activities of the entity.

BC52 The proposed amendments to paragraphs 72–83 of IAS 37 aim to eliminate potentially misleading terminology and explain the requirements for restructuring provisions more clearly, to reduce the risk of inappropriate analogies being drawn from the requirements. The amendments are not intended to change the outcomes of applying the requirements for restructuring provisions.

Paragraph-by-paragraph explanation of proposed amendments

BC53 The amendments necessary to achieve the aims described in paragraphs BC26–BC47 are interrelated. The IASB proposes to achieve these aims by replacing paragraphs 17–22 of IAS 37 with new paragraphs numbered 14A–14U and by amending paragraphs 15–16 of IAS 37.

BC54 Appendix A to this basis for conclusions provides a paragraph-by-paragraph explanation of these proposed amendments. For each new or amended paragraph, it:

(a) identifies the function of the proposed requirement and its source—typically an existing paragraph in IAS 37 or a paragraph in the *Conceptual Framework*; and

(b) explains the contribution the paragraph makes to achieving the overall aims of the amendments.

Proposed amendments to the *Guidance on implementing IAS 37*

BC55 The *Guidance on implementing IAS 37* published with IAS 37 includes:

(a) a decision tree illustrating the process an entity follows in applying the three recognition criteria in paragraph 14 of IAS 37, and the consequences of meeting or failing to meet each criterion; and

(b) examples showing how to apply the present obligation recognition criterion to various fact patterns.

Expanding the decision tree

BC56 The proposed amendments to the present obligation recognition criterion would split the criterion into three separate conditions: obligation, transfer and past-event conditions. The IASB proposes to expand the decision tree in the *Guidance on implementing IAS 37* to show how a step-by-step assessment of these three conditions would fit into the wider process followed by an entity in applying the recognition criteria.

BC57 The proposed new decision tree also shows more prominently the consequence of an obligation failing to meet the present obligation recognition criterion; namely that the entity has neither a provision nor a contingent liability. Giving more prominence to this consequence could help overcome a common misunderstanding, which is that an obligation that fails any of the criteria for recognising a provision is a contingent liability.

Adding illustrative examples

BC58 The IASB proposes to add further examples to the *Guidance on implementing IAS 37*. These proposed examples illustrate the application of the recognition criteria to fact patterns similar to those in:

(a) IFRIC 6 (proposed Example 12);

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(b) Illustrative Examples accompanying IFRIC 21 (proposed Example 13A and Example 13B);

(c) Agenda Decision *Negative Low Emission Vehicle Credits* discussed in paragraph BC16 (proposed Example 14); and

(d) Agenda Decision *Climate-related Commitments* discussed in paragraph BC11 (proposed Example 15).

BC59 Adding these examples to the *Guidance on implementing IAS 37* would allow the IASB to withdraw the interpretations and agenda decisions without losing an analysis of the fact patterns they discuss. Moving that analysis to the *Guidance on implementing IAS 37* would also help consolidate the guidance in one place, making it more accessible. Including examples illustrating the application of the proposed new requirements to levies with fact patterns like those accompanying IFRIC 21 would help illustrate how the outcomes of applying the proposed requirements differ from the outcomes of applying IFRIC 21.

Amending existing examples

BC60 The IASB proposes to amend the analysis in the existing examples in the *Guidance on implementing IAS 37* to reflect the proposed new requirements supporting the present obligation recognition criterion. In the IASB's view, none of the conclusions on whether a provision is recognised would change, but some would be explained in another way.

BC61 The IASB proposes to expand the analysis of each example to include a conclusion on whether each of the three conditions within the present obligation recognition criterion is met. The aim of expanding the analysis in this way is to further clarify the three conditions to help preparers of financial statements apply them to other fact patterns, including new fact patterns that might emerge in the future. In practice, it might be unnecessary to assess all three conditions, because failing to meet any one condition is sufficient to conclude that the present obligation recognition criterion is not met.

BC62 The IASB proposes to delete Example 4 (Refunds policy) because, following the issue of IFRS 15 *Revenue from Contracts with Customers*, this example is no longer applicable.

Measurement—Expenditure required to settle an obligation

BC63 In May 2020 the IASB issued a narrow-scope amendment to IAS 37, adding paragraph 68A. Paragraph 68A specifies the costs an entity includes in assessing whether a contract is onerous, and hence in determining whether the entity recognises an onerous contract provision. It requires an entity to include the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of plant or equipment.

BC64 While the IASB was developing that narrow-scope amendment, some stakeholders asked it to clarify:

(a) whether an entity that has used the costs set out in paragraph 68A of IAS 37 to determine whether a contract is onerous is required to include the same costs in measuring the resulting onerous contract provision; and

(b) whether an entity is also required to include the same types of costs in measuring other types of provisions within the scope of IAS 37.

BC65 The IASB decided not to respond to these questions at the time because doing so would have delayed an urgent amendment. Paragraph BC19 of the Basis for Conclusions on IAS 37 includes a statement that adding paragraph 68A to IAS 37 does not change the requirements in the Standard beyond clarifying the costs an entity is required to consider in determining whether a contract is onerous.

BC66 This statement leaves open the question of which costs an entity includes in measuring an onerous contract provision and, more broadly, in measuring any type of provision within the scope of IAS 37. To answer this question, the IASB proposes to specify that, in measuring a provision, an entity includes the types of costs it would include in assessing whether a contract is onerous. This proposal reflects the IASB's view that:

(a) the basis for measuring an onerous contract provision should be consistent with the basis on which the contract has been assessed to be onerous; and

(b) the arguments on which the IASB based its conclusions about the costs of fulfilling an onerous contract obligation (see paragraphs BC4–BC13 of the Basis for Conclusions on IAS 37) apply equally to the expenditure required to settle other types of provisions within the scope of IAS 37.

Measurement—Discount rates

Determining the discount rate

Current requirements

BC67 Paragraph 36 of IAS 37 requires an entity to measure a provision by estimating the expenditure required to settle the present obligation. Paragraph 45 of IAS 37 requires the entity to discount this expenditure to its present value if the effect of the time value of money is material. Paragraph 47 of IAS 37 requires an entity to discount the expenditure at a rate that reflects:

(a) current market assessments of the time value of money; and

(b) the risks specific to the liability, to the extent that these risks are not reflected in the cash flows.

BC68 The risks specific to the liability include the uncertainty in the amount or timing of the expenditure required to settle the liability. This type of risk typically increases the measure of the liability, and it can be reflected by:

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(a) increasing the estimate of the expenditure required to settle the liability (increasing the estimated expenditure to its certainty equivalent amount[2]); or

(b) decreasing the rate used to discount the estimated expenditure to its present value.

BC69 IAS 37 does not specify whether the risks specific to the liability also include non-performance risk—the risk that the entity will not settle the liability. If non-performance risk is reflected, the amount at which a liability is measured decreases. Non-performance risk is reflected by increasing the discount rate.

BC70 The non-performance risk associated with a provision might differ from the non-performance risk associated with an entity's other liabilities. For example, regulations governing asset decommissioning and environmental rehabilitation obligations sometimes reduce the non-performance risk associated with these obligations by requiring entities to fund the obligations, or by ranking the obligations higher than other liabilities in a liquidation.

Reasons for specifying whether to include or exclude non-performance risk

BC71 In the absence of specific requirements in IAS 37 on whether and how to include non-performance risk, practice varies:

(a) some entities exclude non-performance risk. Their accounting policy is to apply a risk-free rate, which they typically determine by reference to an observable market proxy for a risk-free rate—for example, the current yield on a low-risk government bond in a currency consistent with that of the provision.

(b) some entities include an entity-specific measure of non-performance risk. Their accounting policy is to apply a 'credit-adjusted' rate, which they might determine by reference to:

(i) the entity's incremental or average borrowing rate; or

(ii) an observable market proxy for a risk-free rate adjusted for the entity's credit spread.

(c) some entities include a market measure of non-performance risk—the non-performance risk in a particular class (or classes) of investment—for example, AA-rated corporate bonds. Such entities determine the discount rate by reference to the current market yield on that type of investment.

BC72 An entity that includes non-performance risk in the discount rate recognises smaller provisions than an entity that excludes that risk. The differences can be significant for large long-term provisions, such as the asset decommissioning and environmental rehabilitation provisions recognised by entities operating in the power generation, oil and gas, mining, and telecommunications sectors.

2 The maximum amount at which the entity would be willing to exchange its liability for one with certain cash outflows of the same amount.

BC73 If two entities use discount rates calculated on different bases for similar provisions, investors might have difficulty comparing the effect of those provisions on the entities' financial performance and financial position. To make comparisons, investors would need to adjust the amounts one entity reports so they are calculated on the same basis as the amounts the other entity reports. The calculations required are sometimes complex, and not all entities disclose the information necessary to make the appropriate adjustments.

BC74 Almost all stakeholders the IASB consulted said they would be in favour of amendments to IAS 37 to improve comparability. A few of those stakeholders said they thought it might be enough to enhance the disclosure requirements, but most said the IASB should standardise the rates entities use, by specifying in IAS 37 whether and how the rate includes non-performance risk.

Reasons for requiring entities to exclude non-performance risk

BC75 In paragraph 47 of the Exposure Draft, the IASB proposes to specify that an entity discounts a provision at a rate that reflects current market assessments of the time value of money, represented by a risk-free rate, with no adjustment for non-performance risk. An entity could estimate an appropriate rate by reference to an observable market proxy for a risk-free rate.

BC76 In reaching its conclusion that the rate should exclude non-performance risk, the IASB considered the alternative views of some stakeholders. As explained further in Appendix B, these stakeholders argued that a rate that *includes* non-performance risk:

(a) can be justified conceptually and results in information that could be useful to investors; and

(b) can be viewed as consistent with both:

   (i) the measurement objective of IAS 37; and

   (ii) the requirement in paragraph 47 of IAS 37 to reflect risks 'specific to the liability'.

BC77 However, as also explained further in Appendix B, the IASB noted it can be argued that a rate that excludes non-performance risk also fulfils these criteria. One conceptual justification for excluding non-performance risk reflects a difference between provisions within the scope of IAS 37 and liabilities that arise from exchange transactions. Provisions within the scope of IAS 37 (for example, asset decommissioning obligations) typically do not include an obligation for an entity to pay the counterparty compensation for accepting non-performance risk. By discounting a provision (and hence unwinding the discount) at a rate that excludes non-performance risk, an entity faithfully represents the fact that it does not incur an expense for transferring that risk.

BC78 In reaching its conclusion that the rate should exclude non-performance risk, the IASB considered two other factors:

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(a) first, the IASB noted a preference among many stakeholders, including users and preparers of financial statements, for a rate that can be determined objectively by reference to an observable market rate. The non-performance risk associated with a provision is not observable and, as explained in paragraph BC70, can differ from the non-performance risk associated with an entity's other liabilities. Therefore, any estimate of the adjustment required to reflect non-performance risk could be highly subjective. Investors have said this subjectivity would reduce comparability. Preparers of financial statements have said the adjustment could be difficult and costly to estimate and audit.

(b) second, the IASB noted that the outcomes of measuring a provision at an amount that reflects the entity's own credit standing can be counter-intuitive. An entity with a weak credit standing reports a smaller liability than an entity with a stronger credit standing, and an entity with a deteriorating credit standing reports a reduction in its liabilities.

BC79 A few stakeholders said they would favour including non-performance risk in the discount rate because doing so would make the requirements in IAS 37 for asset decommissioning and associated environmental rehabilitation obligations more consistent with those in US generally accepted accounting principles (US GAAP). Under US GAAP, an entity measures these obligations using a credit-adjusted discount rate.[3]

BC80 However, the IASB concluded that a requirement to include non-performance risk in the measure of a provision would only marginally improve consistency between IAS 37 and US GAAP requirements because:

(a) the credit-adjusted rate entities use in applying US GAAP differs from the rate IAS 37 would require if it were to mandate inclusion of non-performance risk. The credit-adjusted rate entities use in applying US GAAP reflects those entities' credit standing at the date of initial recognition, but does not reflect:

(i) changes in their credit standing after initial recognition; or

(ii) the non-performance risk specifically associated with the liability being measured.

(b) there are several other differences between IAS 37 and US GAAP requirements for recognising and measuring asset retirement and associated environmental rehabilitation obligations.

Application guidance

BC81 The IASB proposes to add no application guidance to IAS 37 on how an entity determines an appropriate risk-free discount rate. In reaching this decision, the IASB noted that:

3 US GAAP requirements are set out in FASB ASC Subtopic 410–20 *Asset Retirement and Environmental Obligations*.

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(a) practice is already well-established without guidance in IAS 37. Many preparers of financial statements already estimate a risk-free rate for measuring provisions, either to implement a policy of discounting at a risk-free rate or as the starting point for estimating a credit-adjusted rate.

(b) provisions within the scope of IAS 37 vary widely in their terms and the circumstances of their settlement. The IASB cannot develop guidance to cover all possible terms and circumstances and so might be unable to develop any guidance beyond basic principles that are already widely understood.

(c) several other IFRS Accounting Standards require assets or liabilities to be measured by reference to risk-free interest rates. Any guidance added to IAS 37 could have unintended consequences for those other Standards.

BC82 Typically, entities determine an appropriate risk-free rate by reference to an observable market proxy for a risk-free rate, such as the current yield on a low-risk government bond in a currency consistent with that of the provision. In some cases, an entity might adjust that yield—for example, to compensate for differences between the duration and liquidity of the investment and those of the provision. However, the IASB does not expect all entities to make such adjustments.

Disclosure—Discount rates

BC83 In response to requests from investors, the IASB proposes to add to IAS 37 requirements for an entity to disclose for each class of provision:

(a) the discount rate (or rates) used in measuring the provision; and

(b) the approach used to determine that rate (or those rates).

BC84 Investors giving feedback on the discount rate requirements in IAS 37 said comparability is impaired not only by diversity in the rates used, but also by a lack of information about those rates. Investors noted that other IFRS Accounting Standards that require entities to measure an asset or a liability using present value cash flow techniques—for example, IAS 19 and IAS 36 *Impairment of Assets*—also require entities to disclose the discount rates they have used. IAS 37 is, therefore, unusual in not requiring entities to disclose discount rates used.

BC85 The proposal to require an entity to disclose the approach it used to determine its discount rates follows from the proposal not to add application guidance to IAS 37 on how to determine an appropriate risk-free rate. The proposal acknowledges that entities could use various approaches and that information about the approach used would enhance comparability. The proposed requirement is consistent with a requirement in IFRS 17 *Insurance Contracts* to disclose the approach used to determine the discount rates used in measuring insurance contract liabilities.[4]

4 See paragraph 117(c)(iii) of IFRS 17 *Insurance Contracts*.

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Withdrawal of IFRIC 6 and IFRIC 21

BC86 The IASB proposes to withdraw both IFRIC 6 and IFRIC 21 because the proposed requirements supporting the present obligation recognition criterion would supersede the requirements in those Interpretations. As discussed in paragraphs BC58–BC59, the IASB proposes to add to the *Guidance on implementing IAS 37* examples illustrating fact patterns like those described in IFRIC 6 and IFRIC 21, so the analysis in these Interpretations would not be lost.

Transition requirements

Entities applying IFRS Accounting Standards

BC87 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to account for a change in an accounting policy resulting from the initial application of an IFRS Accounting Standard:

(a) in accordance with the transition requirements set out in that Standard if it includes such requirements; or

(b) retrospectively if the Standard has no transition requirements.

BC88 The IASB concluded that the costs of retrospective application of some of the amendments proposed in the Exposure Draft could exceed the benefits. Therefore, it is proposing a general requirement for retrospective application with two simplifying exceptions. These exceptions are explained in paragraphs BC90–BC98.

BC89 Some provisions, for example, provisions for asset decommissioning obligations, are added to the cost of the asset to which they relate. Paragraph 94C of the Exposure Draft clarifies that if an entity adjusts a provision for such an obligation, the entity might also need to adjust the carrying amount of the related asset. The requirement for an entity to recognise the net difference as at the transition date in equity clarifies that the entity does not adjust the carrying amount of goodwill acquired in business combinations occurring before that date (subject to the requirements in paragraph 45 of IFRS 3 *Business Combinations*).

Modified retrospective approach for changes in costs included in the measure of a provision

BC90 The first exception to retrospective application is set out in paragraph 94D of the Exposure Draft. This exception specifies a modified retrospective approach for changes in the costs included in the measure of a provision resulting from the amendment proposed in paragraph 40A of the Exposure Draft.

BC91 The IASB is proposing this modified retrospective approach because:

(a) the IASB required this approach when it amended IAS 37 in 2020 to specify the costs an entity includes in assessing whether a contract is onerous; and

(b) the amendments proposed in paragraph 40A follow from the 2020 amendment described in (a). The arguments made in support of the modified retrospective approach specified in the 2020 amendment (see paragraphs BC20–BC21 of the Basis for Conclusions on IAS 37) also apply to the amendment proposed in paragraph 40A.

Simplified approach for changes in discount rates

BC92 The second exception to retrospective application is set out in paragraph 94E of the Exposure Draft. This exception would permit a simplified retrospective approach for changes in discount rates resulting from the amendments proposed in paragraph 47A of the Exposure Draft. The simplification would apply to changes affecting the measure of a provision for asset decommissioning or restoration costs, if those costs are added to the cost of a related asset—for example, related property, plant and equipment or a related lease right-of-use asset. The proposed exception is similar to the exception set out in paragraph D21 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The reason for proposing the exception is explained in paragraphs BC93–BC98 below.

BC93 In paragraph 47A of the Exposure Draft, the IASB proposes to specify that the rate an entity uses to discount a provision reflects current market assessments of the time value of money, represented by a risk-free rate, without adjustment for non-performance risk.

BC94 An entity that currently discounts an asset decommissioning or restoration provision at a rate that includes non-performance risk would need to change its accounting policy to use a lower rate, with a resulting increase in the measure of the provision.

BC95 The IASB concluded that applying the change in accounting policy retrospectively could be difficult if the corresponding debit is added to the cost of the related asset.

BC96 The difficulty would arise because:

(a) IAS 37 requires an entity to measure a provision using current estimates of the expenditure required to settle the present obligation and a current market assessment of the time value of money. Consequently, the measure of an asset decommissioning or environmental rehabilitation provision can fluctuate between reporting dates due to changes in estimates of the required expenditure or changes in current market interest rates.

(b) IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires the fluctuations described in (a) to be added to, or deducted from, the cost of the related asset. Consequently, the fluctuations are generally recognised in the statement of profit or loss prospectively as the related asset is depreciated over its useful life or becomes impaired. Accordingly, the carrying amount of the asset at the date of transition could depend on when and how estimates of required expenditure and market interest rates fluctuated from the date the decommissioning obligation arose.

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(c) therefore, retrospective application of the change in accounting policy would necessitate an entity constructing a historical record of every adjustment that would have been made to the asset's cost and accumulated depreciation at each reporting date between initial recognition of the provision and the date of transition.

BC97 The IASB previously concluded that constructing such a historical record would be impracticable for first-time adopters of IFRS Accounting Standards.[5] For this reason, IFRS 1 exempts first-time adopters from applying IFRIC 1 for fluctuations in estimates of the cash outflows and market interest rates that occurred before the date of transition to IFRS Accounting Standards. Paragraph D21 of IFRS 1 sets out a simplified retrospective approach for an entity that chooses to use this exemption. Applying that simplified approach, an entity measures the provision at the date of transition in accordance with the requirements in IAS 37 and estimates the amount that would have been included in the cost and accumulated depreciation of the related asset using simplifying assumptions.

BC98 The IASB has concluded that a similar exemption would be justified for an entity that changes its accounting policy as a result of the amendments proposed in the Exposure Draft.

First-time adopters of IFRS Accounting Standards

BC99 IFRS 1 requires first-time adopters of IFRS Accounting Standards to apply the requirements retrospectively, with some exceptions. When the IASB issues a new Standard or makes significant changes to a Standard, it considers whether to remove any of those exceptions and whether to add more.

BC100 The IASB proposes no changes to the exceptions in IFRS 1 as a result of the amendments it proposes to make to IAS 37 because:

(a) IFRS 1 provides no exceptions to the requirements in IAS 37, other than the exemptions from the requirements in IFRIC 1 described in paragraph BC97; and

(b) the amendments proposed in the Exposure Draft would not fundamentally change the requirements in IAS 37 or the procedures or judgements necessary to apply those requirements.

Disclosure—Subsidiaries without public accountability

BC101 Eligible subsidiaries can choose to apply the reduced disclosure requirements in IFRS 19 *Subsidiaries without Public Accountability: Disclosures* instead of the more extensive disclosure requirements in other IFRS Accounting Standards.[6]

5 See paragraph BC63C of the Basis for Conclusions on IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

6 A subsidiary is eligible if:

- it does not have public accountability; and
- it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

BC102 When the IASB proposes new or amended disclosure requirements for other IFRS Accounting Standards it considers whether to include those requirements in IFRS 19. It judges whether including them would provide useful information to users of eligible subsidiaries' financial statements. In doing so, the IASB:

(a) applies guiding principles set out in paragraph BC33 of the Basis for Conclusions on IFRS 19; and

(b) assesses the costs and benefits of the new or amended disclosure requirements based on the needs of those users.

BC103 The IASB has considered whether to add to IFRS 19 the two disclosure requirements it proposes to add to IAS 37.

BC104 As set out in Appendix B to the Exposure Draft, the IASB proposes to add to IFRS 19 a requirement to disclose the discount rate or rates used in measuring a provision. This proposal reflects:

(a) the guiding principle that information on measurement uncertainties —for example, significant judgements and estimates—is important for eligible subsidiaries;

(b) the fact that IFRS 19 requires disclosure of the discount rates used in measuring other assets and liabilities; and

(c) the IASB's assessment that the costs of disclosing discount rates used would be low, because the information is readily available and not commercially sensitive.

BC105 The IASB proposes not to add to IFRS 19 a requirement to disclose the approach used to determine discount rates. The IASB noted that IFRS 19 does not require disclosure of this information for most other assets and liabilities (the only exception being insurance contract liabilities) and concluded that the costs of providing this information would exceed the benefits to the users of eligible subsidiaries' financial statements.

Consequential amendments to other IFRS Accounting Standards

BC106 As a consequence of its proposals to amend IAS 37, the IASB also proposes amendments to other IFRS Accounting Standards. As set out in Appendix B to the Exposure Draft, it proposes:

(a) to remove from IFRS 3 *Business Combinations* an exception to its recognition principle, as explained further in paragraphs BC107–BC110; and

(b) to make minor amendments to several IFRS Accounting Standards that refer to IAS 37. The aim of these amendments would be to align the wording of the references in those other Standards with the amended wording in IAS 37.

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Consequential amendment to IFRS 3

BC107 Two recognition principles underpin the requirements in IFRS 3 for recognising assets and liabilities acquired in a business combination:

(a) at the acquisition date, the acquirer recognises the identifiable assets it has acquired and the liabilities it has assumed, recognising items that meet the definition of an asset or a liability as set out in the *Conceptual Framework*;[7] and

(b) after the acquisition date, the acquirer accounts for those assets and liabilities in accordance with the applicable IFRS Accounting Standard for those items, depending on their nature.[8]

BC108 Currently, the recognition requirements in IAS 37 and IFRIC 21 are not consistent with the *Conceptual Framework*. Some items that meet the definition of a liability in the *Conceptual Framework* do not meet the definition applied in the present obligation recognition criterion in IAS 37. As a result, an acquirer applying the recognition principles in IFRS 3 might recognise a provision on acquisition and then be required to derecognise that provision immediately after the acquisition.

BC109 To avoid this outcome, paragraphs 21A–21C in IFRS 3 provide an exception to the initial recognition principle. The exception applies to liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination. The exception specifies that an entity applies IAS 37 or IFRIC 21 (instead of the *Conceptual Framework*) to determine whether to recognise a liability for those items at the acquisition date.

BC110 As discussed in paragraphs BC34–BC36, the IASB proposes to amend the requirements supporting the present obligation recognition criterion in IAS 37, to align them with the *Conceptual Framework*. It also proposes to withdraw IFRIC 21. These amendments would eliminate the inconsistency between the IFRS 3 recognition principle and IAS 37 recognition criteria, rendering the exception in IFRS 3 redundant. Consequently, the IASB proposes to remove the exception by deleting paragraphs 21A–21C from IFRS 3.

Costs and benefits of the proposed amendments

BC111 The IASB has assessed the likely costs and benefits of possible amendments to IAS 37 throughout the development of the proposals in the Exposure Draft.

BC112 Before deciding to add a project to amend IAS 37 to its work plan, and in determining the project scope and objectives, the IASB identified a list of potential shortcomings in IAS 37. The IASB then sought stakeholder views on whether the benefits of amendments would exceed the costs for each shortcoming. The scope of the project includes only matters on which there was consensus among stakeholders that the benefits would exceed the costs.[9]

7 See paragraphs 10–11 of IFRS 3.

8 See paragraph 54 of IFRS 3.

9 IASB meeting, January 2020, Agenda Paper 22 *Provisions—Project proposal*.

BC113 In reaching its tentative decisions on this project, the IASB considered the costs and benefits of various options for each of the proposed amendments and for the transition requirements. Likely costs and benefits were identified using information gathered from stakeholders and explained in the staff papers prepared for the meetings at which the IASB made its tentative decisions.

BC114 Table 1 sets out the IASB's assessment of the most significant costs and benefits of the amendments proposed in the Exposure Draft. The IASB is publishing the Exposure Draft having reached a view that the benefits would exceed the costs.

Table 1—Likely costs and benefits of the amendments proposed in the Exposure Draft

	Amendment	Likely costs	Likely benefits
(a)	Updated liability definition.	Initial application costs to understand the new definition and its practical implications.	Lower ongoing costs resulting from a single, clearer definition in IFRS Accounting Standards.
(b)	Clearer requirements supporting the present obligation recognition criterion.	Initial application costs to understand the new requirements and their practical implications.	Lower ongoing costs and more consistent application.
(c)	New requirements leading to earlier and progressive recognition of some levies.	Initial application costs to understand the new requirements and change an accounting policy. Higher ongoing application costs, because provisions recognised earlier might be subject to greater measurement uncertainty.	More useful information for investors, helping them to assess an entity's future cash flows.
(d)	Withdrawal of IFRIC 6, IFRIC 21 and two agenda decisions. Addition of their fact patterns to the *Guidance on implementing IAS 37*.	Initial application costs to become familiar with the new structure.	Easier ongoing application resulting from all IAS 37 requirements and guidance being consolidated in one place.

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	Amendment	Likely costs	Likely benefits
(e)	Requirements for threshold-triggered costs.	Initial application costs to change an accounting policy. Higher ongoing application costs, because provisions recognised earlier might be subject to higher measurement uncertainty.	Clearer requirements reducing application costs and promoting more consistent application. More useful information for investors, helping them to assess an entity's future cash flows.
(f)	More specific discount rate requirements.	Initial application costs to change an accounting policy.	Less diversity in practice and less subjectivity in measurements, improving comparability between entities.
(g)	Requirement for an entity to disclose the discount rates it uses and its approach to determining those rates.	Ongoing application costs for entities to provide this additional information. The IASB expects that these costs will not be high because the information is readily available and is not commercially sensitive.	Useful information for investors and increased transparency, improving comparability between entities.

Appendix A—Functions and sources of proposals in paragraphs 14A–16

BCA1 This appendix provides a paragraph-by-paragraph explanation of the proposed amendments to the requirements supporting the present obligation recognition criterion (paragraphs 14A–16).

BCA2 For each of those paragraphs, it provides:

(a) a cross-reference to the source of the proposed requirements, which is typically an existing paragraph in IAS 37 or a paragraph in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*); and

(b) an explanation of the contribution the paragraph makes to achieving the overall objectives of the amendments, as discussed in paragraphs BC26–BC47.

BCA3 References to IAS 37 and the *Conceptual Framework* use shorthand labels:

(a) IAS 37.x refers to paragraph x of IAS 37; and

(b) CF.4.x refers to paragraph x of Chapter 4 of the *Conceptual Framework*.

Table A1—Paragraph-by-paragraph explanations

Exposure Draft paragraph	Function and source	Contribution to overall aims
14A	Identifies three conditions within the present obligation recognition criterion, reflecting those in CF.4.27.	Replaces the requirement for an obligating event with three distinct conditions.
14B	Defines an 'obligation', using and expanding on the definition in CF.4.29.	Clarifies that the 'no practical ability to avoid' requirement refers to an entity's ability to avoid discharging a responsibility if it obtains specific benefits or takes a specific action, not its ability to avoid obtaining those benefits or taking that action.
14C	Identifies the mechanisms that create obligations using the existing definitions in IAS 37.10.	Links the obligation condition to the definitions of legal and constructive obligations.

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Exposure Draft paragraph	Function and source	Contribution to overall aims
14D	Provides examples of economic benefits and actions, building on those listed in CF.4.44 and some illustrated in the *Guidance on implementing IAS 37*.	Clarifies the meaning of two terms used in describing both the obligation condition (paragraph 14B) and the past-event condition (paragraph 14N).
14E	Retains the first part of IAS 37.20 with minor edits to make the wording consistent with CF.4.29.	Improves clarity and editorial consistency with no substantive changes.
14F	Explains the meaning of 'no practical ability to avoid'. Replaces IAS 37.17(a) with analysis from IFRS Interpretations Committee Agenda Decision *Negative Low Emission Vehicle Credits* (IAS 37). Integrates concepts from CF.4.34. Retains IAS 37.17(b).	Clarifies the circumstances in which an entity has no practical ability to avoid a legal obligation. Retains existing requirements related to constructive obligations.
14G	Retains IAS 37.22.	Clarifies that a law gives rise to an obligation when it has been enacted or is virtually certain to be enacted.
14H	Retains the second part of IAS 37.20.	Explains why a board decision is not enough to give rise to a constructive obligation.
14I–14J	Integrates concepts from CF.4.36–CF.4.37.	Explicitly includes and explains the transfer condition in the definition of a liability.

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Exposure Draft paragraph	Function and source	Contribution to overall aims
14K	Integrates concepts from CF.4.38.	Explains how the transfer condition in the present obligation recognition criterion in paragraph 14(a) of IAS 37 works alongside the probable transfer recognition criterion in paragraph 14(b) of IAS 37.
14L	Develops concepts from CF.4.39(c) (an example of an obligation to transfer an economic resource), and CF.4.47 and CF.4.57 (description of obligations in executory contracts).	Clarifies existing requirements. Explains why an executory contract (or any other type of obligation to exchange economic resources) meets the recognition criteria only if the contract (or other type of obligation) is onerous.
14M	Repeats new paragraph 14A(c).	Introduces the discussion of the past-event condition.
14N	Replaces IAS 37.19 with new requirements using concepts from CF.4.43.	Redescribes the past-event condition.
14O	Adds clarifying details from CF.4.44.	Describes the circumstances in which the past-event condition is met over time.
14P	Specifies application requirements for threshold-triggered costs, interpreting the general requirements proposed in paragraphs 14N–14O.	Promotes consistent application of the general requirements.

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Exposure Draft paragraph	Function and source	Contribution to overall aims
14Q	Specifies requirements for obligations that arise only if an entity takes two or more separate actions. The requirements are based on concepts from CF.4.32. In the *Conceptual Framework*, these concepts are in the section discussing the obligation condition because, like the obligation condition, they apply a 'no practical ability to avoid' threshold. However, they apply that threshold in the context of the past-event condition, so the IASB proposes to include the requirements in the past-event section of IAS 37.	Replaces IFRIC 21 *Levies* with requirements that would result in earlier and progressive recognition of some annual levies and, therefore, more useful information about those levies.
14R	Integrates concepts from CF.4.33, which supports CF.4.32.	Provides further guidance on how to interpret 'no practical ability to avoid' in the past-event condition.
14S–14T	Uses concepts in CF.4.45 to clarify that the enactment of a law or an action that creates a constructive obligation is not sufficient to create a present obligation.	Clarifies the existing requirements. Helps explain that the announcement of a commitment is not sufficient for the entity to recognise a provision, as illustrated in Example 15 Climate-related Commitments in Section C of the proposed amendments to the *Guidance on implementing IAS 37*.

continued...

...continued

Exposure Draft paragraph	Function and source	Contribution to overall aims
14U	Retains IAS 37.21, renumbered and with edits to make the terminology consistent with the preceding paragraphs.	Retains the clarification that events (obtaining specific economic benefits or taking a specific action) that do not give rise to a present obligation immediately might do so at a later date.
15–16	Retains the requirements for circumstances in which it is unclear whether the present obligation recognition criterion is met because it is unclear whether specific events occurred or how the law applies to those events. Some text has been reworded.	The rewording ensures that the requirements allow for the possibility that the uncertainty could relate to any of the three conditions in the present obligation recognition criterion. This possibility is shown explicitly in the proposed new decision tree in Section B1 of the *Guidance on implementing IAS 37*.

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Appendix B—Non-performance risk—Conceptual considerations

BCB1 The IASB proposes to require an entity to discount a provision at a rate that excludes non-performance risk (see paragraphs BC75–BC80).

BCB2 In reaching this decision, the IASB considered arguments that a rate that includes non-performance risk:

(a) can be justified conceptually and results in information that could be useful to investors; and

(b) can be viewed as consistent with both:

(i) the measurement objective of IAS 37; and

(ii) the requirement in paragraph 47 of IAS 37 to reflect risks 'specific to the liability'.

BCB3 However, the IASB noted it can be argued that a rate that excludes non-performance risk also fulfils these criteria.

BCB4 This appendix explains these observations further.

Table B1—Conceptual justification and information provided to investors

(a) Non-performance risk excluded
If the discount rate for a provision excludes non-performance risk, the measure of the provision tells investors the amount the entity would need to invest in risk-free assets at the reporting date to fund the settlement of a provision that has been measured at its certainty equivalent amount, as described in paragraph BC68(a). Provisions within the scope of IAS 37 have a characteristic that justifies treating them differently from liabilities that arise from exchange transactions. Provisions within the scope of IAS 37 (for example, asset decommissioning obligations) typically do not include an obligation for an entity to pay the counterparty compensation for accepting non-performance risk. By discounting a provision (and hence unwinding the discount) at a rate that excludes non-performance risk, an entity faithfully represents the fact that it does not incur an expense for transferring that risk—that is, it does not have to pay the counterparty a premium for accepting the risk.
(b) Non-performance risk included
If the discount rate for a provision includes non-performance risk, the measure of the provision reflects the economic value of the entity's obligation (and the counterparty's claim), making the provision more comparable with liabilities measured at a market value. The measure of the provision tells investors that the liability is less onerous than an otherwise identical liability that requires the entity to pay a non-performance risk premium. The non-performance risk adjustment in the discount rate tells investors the level of non-performance risk associated with the provision. This risk exists and transfers to the counterparty regardless of whether the entity compensates the counterparty for accepting the risk.

Table B2—Consistency with the measurement objective of IAS 37

(a) Non-performance risk excluded
Paragraph 36 of IAS 37 describes the measurement objective as 'the best estimate of the expenditure required to settle the present obligation'. This amount does not reflect the probability that the entity will fail to settle the obligation.
(b) Non-performance risk included
Paragraph 37 of IAS 37 supplements the measurement objective. It describes the measurement objective as 'the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time'. This amount would reflect the probability that the entity will fail to settle the obligation.

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Table B3—Requirement to reflect risks 'specific to the liability'

(a) Non-performance risk excluded
It can be argued that non-performance risk is not specific to the liability because it does not depend solely on the characteristics of the liability. It also depends on the credit standing of the entity that owes the liability.
(b) Non-performance risk included
It can be argued that non-performance risk is specific to the liability because it depends in part on the characteristics of the liability—for example, where the liability would rank relative to other liabilities in a liquidation.

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Agenda Item 7.1

Memorandum

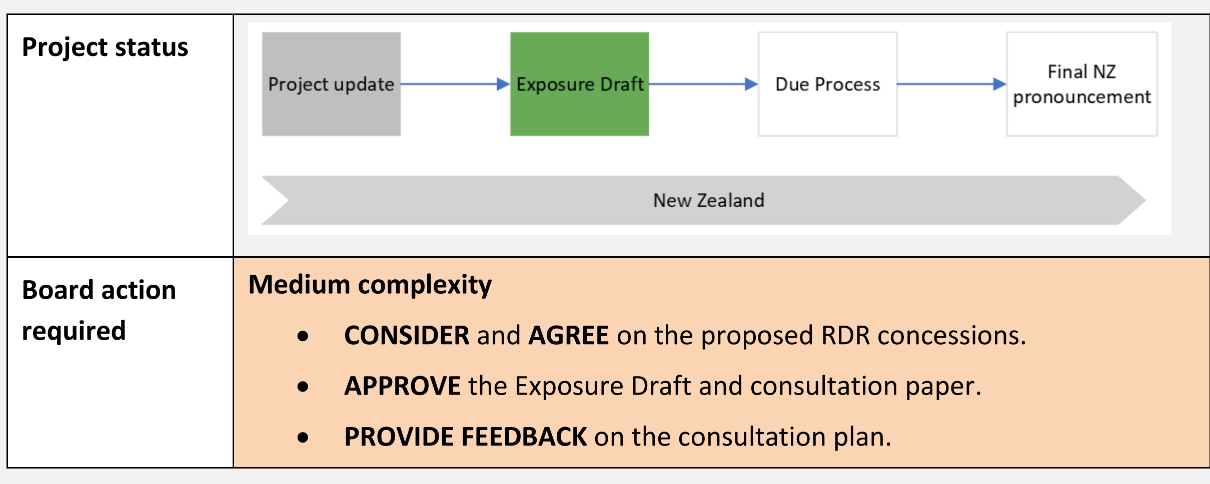
Date:	5 February 2025
To:	NZASB Members
From:	Carly Berry
Subject:	**RDR concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements***

COVER SHEET

Project priority and complexity

Project purpose	Consider RDR concessions to the disclosure requirements in NZ IFRS 18 and to any consequential amendments to disclosure requirements in other NZ IFRSs, due to NZ IFRS 18 (where applicable).
Cost/benefit considerations	In proposing RDR concessions, we have considered the key principles in the draft staff policy *Developing RDR Concessions for For-Profit Tier 2 Entities* – that is: • the information provided by the disclosures in the financial statements meets the needs of users of Tier 2 financial statements; and • the benefits of the disclosures for these users exceed the costs for Tier 2 entities to provide them.
Project priority	**Medium** NZ IFRS 18 is mandatory from 1 January 2027. Due to the significant impact of this new standard on New Zealand for-profit entities, entities need time to prepare for its implementation. Therefore, the sooner the RDR concessions can be finalised, the sooner Tier 2 entities will have clarity on the extent to which the new standard impacts on their reporting.

Overview of agenda item



Project status	
Board action required	**Medium complexity** • **CONSIDER** and **AGREE** on the proposed RDR concessions. • **APPROVE** the Exposure Draft and consultation paper. • **PROVIDE FEEDBACK** on the consultation plan.

Recommendations[1]

1. The Board is asked to:

   (a) **CONSIDER** and **AGREE** on the recommended RDR concessions (and associated RDR and NZ paragraphs) for Tier 2 for-profit entities with respect to:

      (i) some of the new disclosure requirements established by NZ IFRS 18 (see Table 1)*;* and

      (ii) one of the consequential amendments in NZ IAS 34 *Interim Financial Reporting* arising from NZ IFRS 18 (see paragraphs 12-14);

   (b) **APPROVE** the draft Exposure Draft (ED) *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements* and the consultation document, set out in Agenda Items 7.2 and 7.3 respectively; and

   (c) **PROVIDE FEEDBACK** on the proposed consultation plan.

Structure of this memo

2. The sections in this memo are:

   (a) Background

   (b) Analysis of NZ IFRS 18 disclosure requirements and RDR concessions

   (c) Consultation and next steps

Background

3. NZ IFRS 18 replaces NZ IAS 1 *Presentation of Financial Statements* when applied and aims to improve how information is communicated in the financial statements by:

   (a) requiring additional defined subtotals in the statement of profit or loss – to make entities' financial performance easier to compare and provide a consistent starting point for investors' analysis.

   (b) requiring disclosures about management-defined performance measures – to increase discipline over their use and transparency about their calculation.

   (c) adding new principles for grouping (aggregation and disaggregation) of information.

4. The Board approved NZ IFRS 18 for issue at its May 2024 meeting. At that meeting, the Board also agreed with our approach to RDR concessions in NZ IFRS 18 – that is:

   (a) For new disclosure requirements in NZ IFRS 18 – wait for the Board's final decision on whether to replace RDR with a New Zealand-equivalent to IFRS 19 *Subsidiaries without Public Accountability: Disclosures (*or similar) before deciding on proposals for RDR concessions on these new requirements.

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(b) For NZ IAS 1 disclosure requirements moved to NZ IFRS 18 – retain the current RDR concessions on NZ IAS 1 disclosure requirements that are now incorporated into NZ IFRS 18, where there are only minor wording changes.

5. At the Board's June 2024 meeting, the Board decided to maintain the current RDR regime and not adopt IFRS 19, in any form, in New Zealand. Therefore, we intend to develop RDR concessions for NZ IFRS 18 by consulting on proposed concessions with New Zealand constituents and considering their feedback, as done with historical RDR concessions.

6. At the June 2024 meeting the Board also agreed to develop a formal policy for determining RDR concessions, where IFRS 19 would be one of the inputs ('the draft RDR policy'). This policy was discussed further in December 2024 and is still subject to change and application testing.

7. We have applied the draft RDR policy to identify the applicable disclosure requirements for Tier 2 entities, as outlined below. We will provide feedback to the Board about the use of the draft RDR policy, and any challenges, in the June 2025 meeting.

8. We have also sense-checked our conclusions by performing an analysis of the new disclosure requirements using the current "top-down" approach. The conclusions reached for NZ IFRS 18 RDR concessions are consistent between the two approaches.

Analysis of NZ IFRS 18 disclosure requirements and RDR concessions

NZ IFRS 18

9. Table 1 below sets out the summary of our analysis of the new NZ IFRS 18 disclosure requirements and our proposed RDR concessions. The table also includes links to the relevant disclosure requirement in the XRB Standards Navigator.

10. For efficiency, we grouped the disclosure requirements into categories. For some categories, we were able to assess the disclosure requirements relating on a holistic basis. For others, we considered disclosure requirements individually, to determine the extent of applicability to Tier 2 entities.

11. When considering the analysis in Table 1, please note that:

(a) We have not identified any key disclosure areas for any of the disclosure requirements listed in the table below (except where explicitly mentioned); and

(b) The IASB has proposed to include all of these disclosure requirements in IFRS 19, through its recent consultation *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures*[2]. Overall, the proposed RDR concessions provide more relief for Tier 2 entities, compared to the proposed IFRS 19 requirements.

[2] The disclosure requirements for management-defined performance measures are proposed to be included in IFRS 19 through a reference to the specific paragraphs in IFRS 18.

Table 1: Analysis of new NZ IFRS 18 disclosure requirements against the draft RDR policy

Category	Para ref	Analysis	Conclusion and recommendation
Principles of aggregation and disaggregation	41–43, B8	General principles of aggregation and disaggregation are fundamental to the application of NZ IFRS 18, to allow users to understand the information presented and disclosed in the financial statements and obtain the information they need.	**Key disclosure principles are met.** **No RDR concession recommended.**
Use of 'other' category label	B26(b)	This disclosure requirement is applicable to a Tier 2 entity because, in a situation where the entity determines that a user may reasonably question the composition of an "other" line item, the information provided under paragraph B26(b) will clearly be useful to users. With respect to the cost to provide the information – to apply the principles in NZ IFRS 18, preparers will need to understand the composition of their line items. The requirement in paragraph B26(b) therefore does not impose additional costs on the preparer to investigate the composition of their "other" line items for the purposes of meeting the requirement in paragraph B26(b). In some situations, it may be sufficient to state that there are no material items within the line item.	**Key disclosure principles are met.** **No RDR concession recommended.**
Main business activity	51(a),(b), (c)(i)	Disclosure of this information provides necessary context to the statement of profit or loss and how it is presented and impacts the manner in which NZ IFRS 18 is applied. Therefore, this information is useful to users and would not be costly for Tier 2 entities to provide.	**Key disclosure principles are met.** **No RDR concession recommended.**
Main business activity	51(c)(ii)	Disclosure of this information will help alert users to the fact that the classification of one or more items has changed because of a change in the outcome of the assessment, as well as which items have been impacted. This aids comparability of information between periods, which is an enhancing qualitative characteristic of useful information. Notifying users to the fact that the information required under paragraph 51(c)(ii) has not been disclosed is also important, so that users know that information to assist with comparability of financial information has not been disclosed.	**Key disclosure principles are met.** **No RDR concession recommended.**
Operating expenses by function	82	This disclosure requirement is intended to provide more information on the nature of expenses included within function line items – specifically, a qualitative description. Paragraph 43 already requires an entity to label and describe items presented in the primary financial statements in a way that faithfully represents the characteristics of	**Key disclosure principles are not met.** **RDR concession recommended.**

Category	Para ref	Analysis	Conclusion and recommendation
		the item. Therefore, it is unlikely that the benefit to users of this additional disclosure will outweigh the costs to provide the information.	
Operating expenses by function	83	We have not identified any reason to consider additional factors with respect to this disclosure. We note that much of the information provided by this disclosure can be found within other notes to the financial statements – therefore, it is questionable whether there is any overarching benefit to users arising from this disclosure. Note: impairment is an event which triggers a key disclosure area. However, as noted above, the information on impairment losses and reversals is already required to be disclosed in accordance with NZ IAS 36.126.	**Key disclosure principles are not met.** **RDR concession recommended.**
Operating expenses by function	84	We are recommending an RDR concession on paragraph 83 (see above). If we provide a similar concession on paragraph 84, this would mean that Tier 2 entities cannot apply the exemption. Likewise, if we do not provide a concession on paragraph 84, this would also mean that Tier 2 entities could not apply the exemption (since the exemption only applies if an entity has applied paragraph 83). In both cases, Tier 2 entities could potentially be required to disclose more information than a Tier 1 entity. This is not an appropriate outcome.	We recommend adding **paragraph RDR 84.1,** to exempt Tier 2 entities from applying the general disaggregation requirements to operating expenses in the situations contemplated by paragraph 84. Paragraph RDR 84.1 would be identical to paragraph 84, except that the RDR paragraph would not refer to paragraph 83.
Operating expenses by function	85	We do not intend to provide an exemption to Tier 2 entities relating to other requirements in NZ IFRS, as this could raise inconsistencies with existing RDR concessions. RDR concessions on specific requirements in each NZ IFRS should also be considered within the specific NZ IFRS, not in NZ IFRS 18. We also note that paragraph 85 refers to paragraph 84.	We recommend adding **paragraph RDR 85.1,** in order to refer Tier 2 entities to paragraph RDR 84.1, instead of paragraph 84.
Operating expenses by nature	B84(b)	Since we are recommending a disclosure concession on paragraph 83, this paragraph is not relevant for Tier 2 entities.	**Key disclosure principles are not met.** **RDR concession recommended.**
Management-defined performance measures (MPMs)	121–125, B132 –B142	Tier 2 entities are unlikely to have any MPMs as defined due to these needing to be communicated publicly outside of the financial statements. The benefit to users of the disclosures, even when there is an MPM, is also likely to be minimal, based on the nature of Tier 2 entities (private, closely held users) and these	**Key disclosure principles are not met.** **RDR concessions recommended.** We recommend adding paragraph NZ 1.3, to state that: *"A Tier 2 entity is not required to comply with paragraphs 117–*

Category	Para ref	Analysis	Conclusion and recommendation
		users being able to demand more clarity around MPMs directly from management compared to the NZ IFRS 18 disclosures. As such, we consider Tier 2 entities should not be required to comply with any relevant MPM paragraphs, including the requirements in 117-120 and B113-B131, which relate to the identification of MPMs, and are only relevant for the subsequent disclosure of MPMs.	*125 and paragraphs B113–B142, relating to management-defined performance measures".* The location of this paragraph within NZ IFRS 18 – i.e., right at the start of the standard – is appropriate, as it follows directly after the general Tier 2 paragraph.

Question for the Board

Q1. Does the Board **AGREE** with our conclusions and recommendations on RDR concessions in Table 1?

Consequential amendments to other NZ IFRSs

12. We have reviewed the consequential amendments to other NZ IFRS arising from NZ IFRS 18 (contained within Appendix D of the uncompiled standard).

13. We have identified one new disclosure requirement for which a concession should be provided – paragraph 16A(m) in NZ IAS 34, which requires the disclosures about MPMs specified in NZ IFRS 18 in the interim financial report.

14. As we are recommending RDR concessions for all MPM disclosure requirements within NZ IFRS 18, we recommend a similar concession on paragraph 16A(m) to ensure consistency.

Questions for the Board

Q2. Does the Board **AGREE** with our recommendation to provide an RDR concession on paragraph 16A(m) in NZ IAS 34?

Q3. Does the Board **APPROVE** the draft ED for issue (Agenda Item 7.2)?

Consultation and next steps

15. Subject to the Board's approval, we intend to publish the ED in early March 2025. Given the significant impact NZ IFRS 18 will have on all for-profit entities and the overall presentation of financial statements, we consider a 90-day consultation period to be appropriate to ensure Tier 2 entities can fully consider the implications. The consultation period would therefore close on 30 May 2025.

16. Given the pervasiveness of this standard, we have also drafted a short consultation document to accompany the ED (see agenda item 7.3) to explain the key concepts of NZ IFRS 18, provide links to the relevant resources (including XRB one-page summaries for NZ IFRS 18 and previous presentations), and explain how the proposals will impact on Tier 2 entities.

17. We plan to inform stakeholders of this consultation through the following ways:

    (a) Develop a separate webpage for the consultation, with links to this page included on our consultation page as well as on the NZ IFRS 18 webpage.

    (b) Advertise the consultation as a "Hot Topic" on the XRB website – doing so will make it prominent to stakeholders visiting our website.

    (c) Include a link to the consultation in Accounting Alerts and Pitopito Kōrero during the consultation period.

    (d) Inform TRG members of the consultation and encourage them to share it with their clients. We would also encourage TRG members to identify any Tier 2 entities that may be interested in participating in a targeted consultation session.

Questions for the Board

Q4. Does the Board have any **FEEDBACK** on the proposed consultation plan?

Q5. Does the Board **APPROVE** the consultation document for issue (Agenda Item 7.3)?

XRB | *Te Kāwai Ārahi Pūrongo Mōwaho*
EXTERNAL REPORTING BOARD

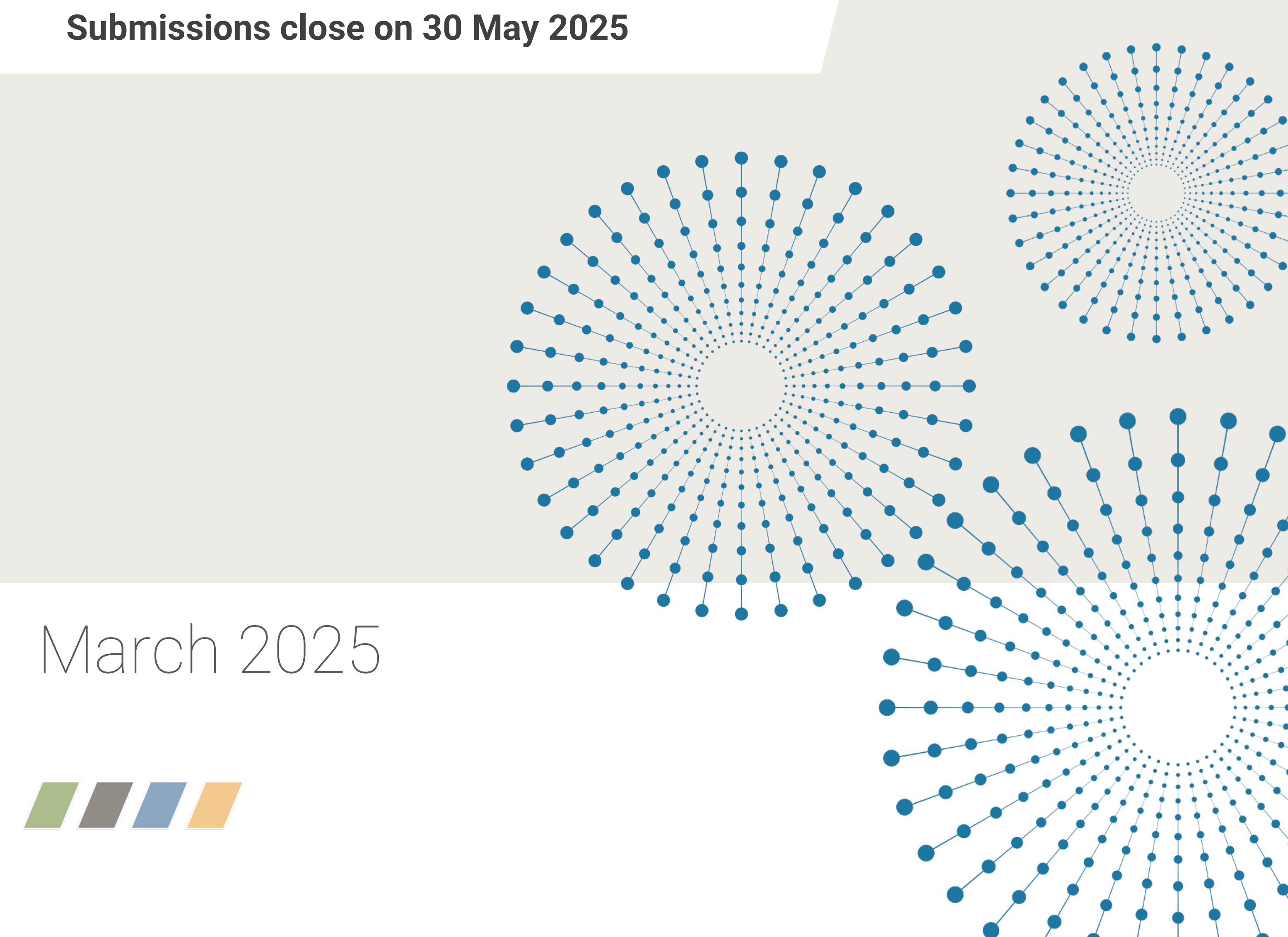
Agenda item 7.2

Exposure Draft

RDR Concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Proposed amendments to NZ IFRS 18 and NZ IAS 34

Submissions close on 30 May 2025



March 2025

RDR Concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Issued [Date]

This [draft] Tier 2 for-profit amending Standard introduces disclosure concessions in response to new disclosures established by NZ IFRS 18 *Presentation and Disclosure in Financial Statements,* issued 23 May 2024. This [draft] amending Standard modifies the disclosure requirements in NZ IFRS 18 and NZ IAS 34 *Interim Financial Reporting*.

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 amending Standard

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

The [draft] 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 [date] and takes effect on [date].

Commencement and application

The [draft] amending Standard has a mandatory date of [1 January 2026], meaning it must be applied by Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraphs NZ C1.4–NZ C1.7 of this [draft] amending Standard.

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Part A – Introduction

This amending Standard modifies the disclosure requirements in NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and NZ IAS 34 *Interim Financial Reporting* for Tier 2 for-profit entities.

Part B – Scope

This Standard applies to Tier 2 for-profit entities. A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

Part C – Amendments to NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Paragraphs NZ 1.3, RDR 84.1 and RDR 85.1 are added. New text is underlined. Asterisks are added to paragraphs 82(b), 83, 84 and 85, to indicate disclosure concessions for Tier 2 entities with respect to these paragraphs. The asterisks are underlined.

Scope

...

NZ 1.3 **A Tier 2 entity is not required to comply with paragraphs 117–125 and paragraphs B113–B142, relating to management-defined performance measures.**

...

Statement of profit or loss

...

Items to be presented in the statement of profit or loss or disclosed in the notes

...

Presentation and disclosure of expenses classified in the operating category

...

82 If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss, it shall:

(a) present a separate line item for its cost of sales, if the entity classifies operating expenses in functions that include a cost of sales function. That line item shall include the total of inventory expense described in paragraph 38 of NZ IAS 2 *Inventories*.

* (b) disclose a qualitative description of the nature of expenses included in each function line item.

*83 **An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall also disclose in a single note:**

(a) the total for each of:

(i) depreciation, comprising the amounts required to be disclosed by paragraph 73(e)(vii) of NZ IAS 16 *Property, Plant and Equipment*, paragraph 79(d)(iv) of NZ IAS 40 *Investment Property* and paragraph 53(a) of NZ IFRS 16 *Leases*;

(ii) amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of NZ IAS 38 *Intangible Assets*;

(iii) employee benefits, comprising the amount for employee benefits recognised by an entity applying NZ IAS 19 *Employee Benefits* and the amount for services received from employees recognised by an entity applying NZ IFRS 2 *Share-based Payment*;

(iv) impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraphs 126(a) and 126(b) of NZ IAS 36 *Impairment of Assets*; and

(v) write-downs and reversals of write-downs of inventories, comprising the amounts required to be disclosed by paragraphs 36(e) and 36(f) of NZ IAS 2; and

(b) for each total listed in (a)(i)–(v):

(i) the amount related to each line item in the operating category (see paragraph B84); and

(ii) a list of any line items outside the operating category that also include amounts relating to the total.

*84 Paragraph 41 requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 83 is exempt from disclosing:

(a) in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item, beyond the amounts specified in paragraph 83; and

(b) in relation to nature expenses specifically required by an NZ IFRS to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss, beyond the amounts specified in paragraph 83.

RDR 84.1 Paragraph 41 requires an entity to disaggregate items to provide material information. However, a Tier 2 entity is exempt from disclosing:

(a) in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item; and

(b) in relation to nature expenses specifically required by an NZ IFRS to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss.

*85 The exemption in paragraph 84 relates to disaggregation of operating expenses. However, it does not exempt an entity from applying specific disclosure requirements relating to those expenses in NZ IFRS.

RDR 85.1 The exemption in paragraph RDR 84.1 relates to disaggregation of operating expenses. However, it does not exempt a Tier 2 entity from applying specific disclosure requirements relating to those expenses in NZ IFRS.

...

Notes

...

Management-defined performance measures

...

Disclosure of management-defined performance measures

*121 **The objective of the disclosures for management-defined performance measures is for an entity to provide information to help a user of financial statements understand:**

(a) the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and

(b) how the management-defined performance measure compares with the measures defined by NZ IFRS.

*122 **An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.**

*123 **An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements (see paragraphs B134–B135). For each management-defined performance measure, the entity shall disclose:**

(a) a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance.

(b) how the management-defined performance measure is calculated.

(c) a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS (see paragraphs B136–B140).

(d) the income tax effect (determined by applying paragraph B141) and the effect on non-controlling interests for each item disclosed in the reconciliation required by (c).

(e) a description of how the entity applies paragraph B141 to determine the income tax effect required by (d).

*124 If an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:

(a) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.

(b) the reasons for the change, addition or cessation.

(c) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of NZ IAS 8.

*125 If an entity does not disclose the restated comparative information required by paragraph 124(c) because it is impracticable to do so, it shall disclose that fact.

Appendix B
Application guidance

Asterisks are added to paragraphs B132–B142, to indicate disclosure concessions for Tier 2 entities with respect to these paragraphs. The asterisks are underlined.

Statement of profit or loss

...

Items to be presented in the statement of profit or loss or disclosed in the notes

...

Presentation and disclosure of expenses classified in the operating category

Use of characteristics of nature and function

...

B84 An entity will either present expenses by nature, or applying paragraph 83, disclose some expenses by nature. The amounts presented or disclosed need not be the amounts recognised as an expense in the period. They could include amounts that have been recognised as part of the carrying amount of an asset. If an entity:

(a) presents amounts that are not the amounts recognised as an expense in the period, it will also present an additional line item for the change in the carrying amount of the affected assets. For example, applying paragraph 39 of NZ IAS 2, an entity might present a line item for changes in inventories of finished goods and work in progress.

* (b) discloses, applying paragraph 83(b), amounts that are not the amounts recognised as an expense in the period, the entity shall give a qualitative explanation of that fact, identifying the assets involved.

Notes

...

Management-defined performance measures

...

Disclosure of management-defined performance measures

Single note for information about management-defined performance measures

* B132 Paragraph 122 requires an entity to include in a single note all information about management-defined performance measures required by paragraphs 121–125. If an entity also discloses other information in that note, the information in the note shall be labelled in a way that clearly distinguishes the information required by paragraphs 121–125 from the other information.

* B133 For example, if an entity applies NZ IFRS 8 and the reportable segment information includes a management-defined performance measure, the entity may disclose the required information about the management-defined performance measure in the same note as other reportable segment information, provided the entity either:

(a) includes in that note the information required by paragraphs 121–125 for all its management-defined performance measures and, to fulfil the requirements in paragraph B132, labels the information in the note in a way that clearly distinguishes the information required by paragraphs 121–125 from the information required by NZ IFRS 8; or

(b) provides a separate note that includes the information required for all its management-defined performance measures, including those for which the entity includes information in the reportable segment information.

A clear and understandable manner

* B134 Paragraph 123 requires an entity to label and describe its management-defined performance measures in a clear and understandable manner that does not mislead users of financial statements. To provide such a description, an entity shall disclose information that enables a user of financial statements to understand the items of income or expense included and excluded from the subtotal. Therefore, an entity shall:

(a) label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 (see paragraph B135); and

(b) provide information specific to management-defined performance measures—that is:

(i) if the entity has calculated the measure other than by using the accounting policies it used for items in the statement(s) of financial performance, the entity shall state that fact and the calculations it has used for the measure; and

(ii) if, in addition, the calculation of the measure differs from accounting policies required or permitted by NZ IFRS, the entity shall state that additional fact and, if necessary, an explanation of the meaning of terms it uses (see paragraph B135(b)).

* B135 To label and describe the measure in a way that faithfully represents its characteristics, an entity shall:

(a) label the measure in a way that represents the characteristics of the subtotal (for example, using the label 'operating profit before non-recurring expenses' only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and

(b) explain the meaning of terms it uses in its descriptions that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines 'non-recurring expenses').

Reconciliation to the most directly comparable total or subtotal

* B136 Paragraph 123(c) requires an entity to reconcile each management-defined performance measure to the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS. For example, an entity that discloses in the notes a management-defined performance measure of adjusted operating profit or loss shall reconcile that measure to operating profit or loss. In aggregating or disaggregating the reconciling items disclosed, an entity shall apply the requirements in paragraphs 41–43.

* B137 For each reconciling item, an entity shall disclose:

(a) the amount(s) related to each line item in the statement(s) of financial performance; and

(b) a description of how the item is calculated and contributes to the management-defined performance measure providing useful information (see paragraphs B138–B140), if necessary to provide the information required by paragraphs 123(a) and 123(b).

* B138 The description required in paragraph B137(b) is required if there is more than one reconciling item and each item is calculated using a different method or contributes to providing useful information in a different way. For example, an entity might exclude from a management-defined performance measure several items of expense, some because they were identified as outside management's control and others because they were identified as non-recurring. In such cases, disclosure of which items contributed to which type of adjustment would be required to explain how the management-defined performance measure provides useful information.

* B139 A single explanation might apply to more than one item or might apply to all reconciling items collectively. For example, an entity might exclude several items of income or expense in calculating a management-defined performance measure based on an entity-specific application of 'non-recurring'. In such a case, a single explanation that includes the entity's definition of 'non-recurring' that applies to all reconciling items might satisfy the requirement in paragraph B137(b).

* B140 Applying paragraph 123(c), an entity is permitted to reconcile a management-defined performance measure to a total or subtotal that is not presented in the statement(s) of financial performance. In such cases, an entity:

(a) shall reconcile that total or subtotal to the most directly comparable total or subtotal presented in the statement(s) of financial performance; and

(b) is not required to disclose the information required by paragraphs 123(d) and 123(e) for the reconciliation in (a).

Income tax effect for each item disclosed in the reconciliation

* B141 An entity is required by paragraph 123(d) to disclose the income tax effect for each item disclosed in the reconciliation between a management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS. An entity shall determine the income tax effect required by paragraph 123(d) by calculating the income tax effects of the underlying transaction(s):

(a) at the statutory tax rate(s) applicable to the transaction(s) in the tax jurisdiction(s) concerned;

(b) based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or

(c) by using another method that achieves a more appropriate allocation in the circumstances.

* B142 If, applying paragraph B141, an entity uses more than one method to calculate the income tax effects of reconciling items, it shall disclose how it determined the tax effects for each reconciling item.

Appendix C
Commencement, application and transition

Paragraphs NZ C1.4–NZ C1.7 (and the related headings) are added. For ease of reading these paragraphs have not been underlined.

Commencement and application

RDR Concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

NZ C1.4 *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*, issued in [date], added paragraphs NZ 1.3, RDR 84.1 and RDR 85.1 and amended paragraphs 82(b), 83, 84, 85, 121–125, B84 and B132–B142. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs NZ C1.5–NZ C1.7. An entity that applies the amendments to an 'early adoption accounting period' shall disclose that fact.

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

NZ C1.5 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 [date] and takes effect on [date].

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ C1.6 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.**

NZ C1.7 In paragraph NZ C1.6:

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 statements; and

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

mandatory date means 1 January 2027.

Part D – Amendments to NZ IAS 34 *Interim Financial Reporting*

Paragraphs NZ 61.1 is added. New text is underlined. An asterisk is added to paragraph 16A(m), to indicate a disclosure concession for Tier 2 entities with respect to this sub-paragraph. The asterisk is underlined.

Content of an interim financial report

...

Other disclosures

16A **In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.**

…

***(m) the disclosures about management-defined performance measures required by paragraphs 121–125 of NZ IFRS 18.**

...

Effective date

...

NZ 61.1 *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*, issued in [date], amended paragraph 16A(m). An entity shall apply that amendment when it applies NZ IFRS 18.

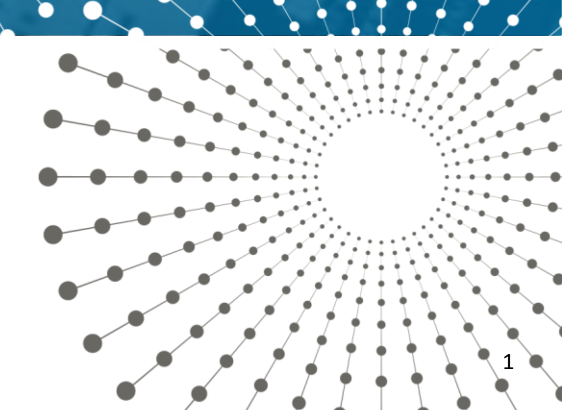
Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda item 7.3

RDR Concessions – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Proposed amendments to NZ IFRS 18 and NZ IAS 34 for Tier 2 for-profit entities

Consultation document



March 2025

Consultation closes 30 May 2025

What is this consultation document about?

We are proposing Reduced Disclosure Regime (RDR) concessions for Tier 2 for-profit entities, for certain new disclosure requirements introduced by NZ IFRS 18 *Presentation and Disclosure in Financial Statements*, which is mandatory from 1 January 2027.

The proposed RDR concessions in this consultation would mean that Tier 2 for-profit entities would **NOT** need to comply with those disclosure requirements for the purposes of their reporting.

Why develop RDR concessions for Tier 2 entities?

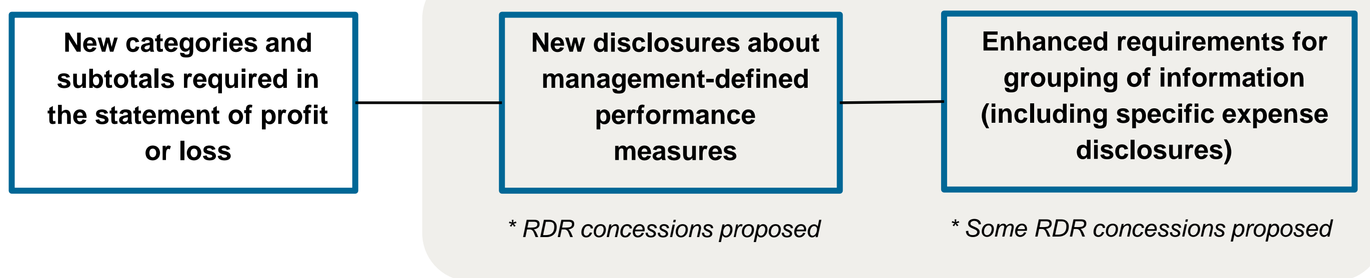
Unlike Tier 1 entities, Tier 2 entities do not have public accountability and consequently the information needs of users of a Tier 2 entity's financial statements differ from the needs of users of a Tier 1 entity's financial statements. The XRB recognises this through the RDR framework.

The purpose of the RDR framework is to simplify the financial reporting for Tier 2 entities by removing or modifying some of the disclosure requirements in the accounting standards, while maintaining the same recognition and measurement requirements as Tier 1 entities.

The objective of the RDR framework is to balance the benefits to users with the costs of preparing financial statements for Tier 2 for-profit entities. It achieves this by only requiring disclosures when they are of particular interest or value to users of those financial statements.

Overview of NZ IFRS 18 and the proposed RDR concessions

NZ IFRS 18 is mandatory from 1 January 2027 and applies to all Tier 1 and Tier 2 for-profit entities. NZ IFRS 18 aims to improve how information is communicated in the financial statements by introducing the following key new requirements.



In ED *RDR Concessions – NZ IFRS 18 Presentation and Disclosure in Financial Statements*, we are proposing that Tier 2 entities will **NOT** be required to disclose information in the following key areas:

- Management-defined performance measures (in both the annual and interim financial statements).
- Specified expenses by nature when using the functional classification of expense.

What NZ IFRS 18 requirements will still apply to Tier 2 entities?

The new principles and requirements introduced in NZ IFRS 18 around the presentation of information (such as new categories and subtotals within the statement of profit or loss) and the grouping of information (to help an entity provide useful information), will still be applicable to Tier 2 entities, along with any disclosure requirements for which there are no RDR concessions.

We encourage all Tier 2 entities to begin considering NZ IFRS 18 now and whether changes may be needed in their systems, record-keeping and financial statement preparation process, to ensure the new requirements can be applied efficiently and effectively when mandatory.

How to provide feedback

Responding to consultation questions

We are seeking comments on the questions below. We will consider all comments received before finalising the amendments to NZ IFRS 18 and NZ IAS 34.

Q1. **Do you agree with the proposed RDR concessions to NZ IFRS 18 and NZ IAS 34? If not, why not?**

Q2. **Would you propose any other RDR concessions to NZ IFRS 18? If so, which concessions would you propose and why?**

Q3. **Do you have any other feedback on the ED proposals?**

Figure 1: Timeline

Mar 2025
Consultation paper *RDR Concessions – NZ IFRS 18* issued for public consultation

30 May 2025
Submissions due to the XRB

Aug/Sep 2025
Amendments to NZ IFRS 18 issued

1 Jan 2027
NZ IFRS 18, including its amendments, become mandatory to apply

Making a submission

You can provide feedback to us via:

- the consultation page on our website (where you can upload a PDF or complete an online form); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

Please include 'NZ IFRS 18 RDR concessions' in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

The consultation closes on **30 May 2025.**

Publication of submissions, the Official Information Act and the Privacy Act

We intend on publishing all submissions on the XRB website, unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the XRB website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 2020 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so.

Level 6, 154 Featherston St
Wellington 6011
New Zealand

www.xrb.govt.nz

Agenda Item 8.1

Memorandum

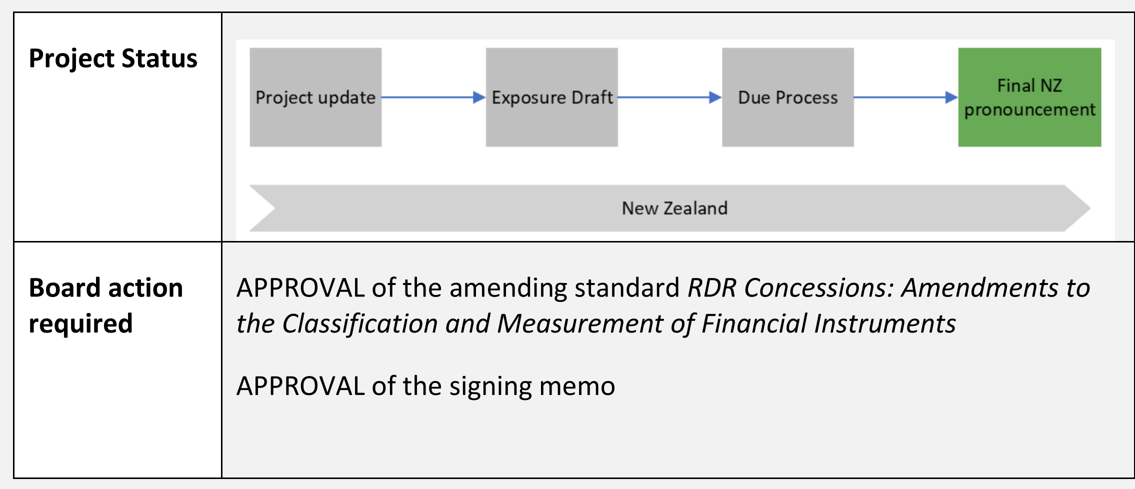
Date:	5 February 2025
To:	NZASB Members
From:	Alex Stainer
Subject:	***RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments***

COVER SHEET

Project priority and complexity

Project purpose	Introduce RDR concessions to some of the disclosure requirements of *Amendments to the Classification and Measurement of Financial Instruments.* This is a targeted and narrow-scope amending standard to respond to the Post Implementation Review (PIR) of IFRS 9—Classification and Measurement.
Cost/benefit considerations	By introducing RDR concessions we reduce unnecessary costs for Tier 2 entities that will be applying the disclosure requirements introduced by *Amendments to the Classification and Measurement of Financial Instruments.*
Project priority	**Medium** *Amendments to the Classification and Measurement of Financial Instruments* is mandatory from 1 January 2026. Disclosure concessions need to be approved and gazetted sufficiently prior to this date to provide certainty for Tier 2 entities.

Overview of agenda item

Project Status	
Board action required	APPROVAL of the amending standard *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments* APPROVAL of the signing memo

Recommendations[1]

1. We recommend that the Board:

   (a) APPROVES for issue *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments*, which amends NZ IFRS 7 *Financial Instruments: Disclosures*; and

   (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board requesting approval to issue *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments*.

Background

2. At the Board meeting held on 13 June 2024, the Board approved the amending standard *Amendments to the Classification and Measurement of Financial Instruments*. This amending Standard adjusted requirements related to settling financial liabilities using an electronic payment system and added guidance for assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance (ESG) linked features, to help determine how to classify and measure these assets.

3. At the Board meeting held on 4 December 2024, the Board agreed to consult on proposed Tier 2 disclosure concessions in NZ IFRS 7 *Financial Instruments: Disclosures,* for some of the disclosures introduced by *Amendments to the Classification and Measurement of Financial Instruments*. The proposed RDR concessions relate to paragraphs 11A and 11B of NZ IFRS 7, which require specific disclosures about investments in equity instruments measured at fair value through other comprehensive income.[2] The disclosure concessions were developed in accordance with the principles outlined in the draft staff RDR policy, which was discussed with the Board at the same meeting.

4. The consultation on the proposed RDR concessions closed on 31 January 2025 and no comments were received.

Due process

5. Section 22 of the Financial Reporting Act 2013 outlines the requirements for consultation prior to the issuance of a standard, an authoritative notice, an amendment, or a revocation by the Board. It specifies that the Board must:

   (a) take reasonable steps to consult with individuals or representatives who would be substantially affected by the issuance; and

   (b) consult with the Privacy Commissioner before issuing a standard, an authoritative notice, or an amendment that could potentially require the disclosure of personal information.

---

[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).

[2] While paragraphs 11A and 11B had existing RDR concessions, the proposed RDR concessions reflect the modifications and new disclosures added into these paragraphs by *Amendments to the Classification and Measurement of Financial Instruments*.

6. 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(1) of the Financial Reporting Act 2013.

7. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Commencement and application

8. Section 28 of the Financial Reporting Act states that the accounting periods in relation to which a standard or amendment commence to apply "must not be accounting periods or interim accounting periods that have ended or that end before the standard, authoritative notice, amendment, or revocation takes effect". Furthermore, the Legislation Act 2019 does not allow legislation to have retrospective effect in New Zealand.

9. We have considered whether any modifications to *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments* are needed to ensure consistency with the abovementioned legislative restrictions.

Mandatory date

10. As shown in agenda item 8.2, *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments* will be applicable to New Zealand for-profit entities for annual reporting periods beginning on or after 1 January 2026 – with earlier application permitted for accounting periods that begin before this date, but which do not end before it takes effect (standards take effect on the 28th day after gazetting). This is consistent with the effective date established by the IASB, to the extent permitted under section 28 of the Financial Reporting Act 2013.

Draft amending standard and signing memorandum

11. Attached as agenda item 8.2 is a copy of *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments*.

12. Attached as agenda item 8.3 is a draft signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board.

Questions for the Board

Q1. Does the Board APPROVE for issue *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments* which amends NZ IFRS 7?

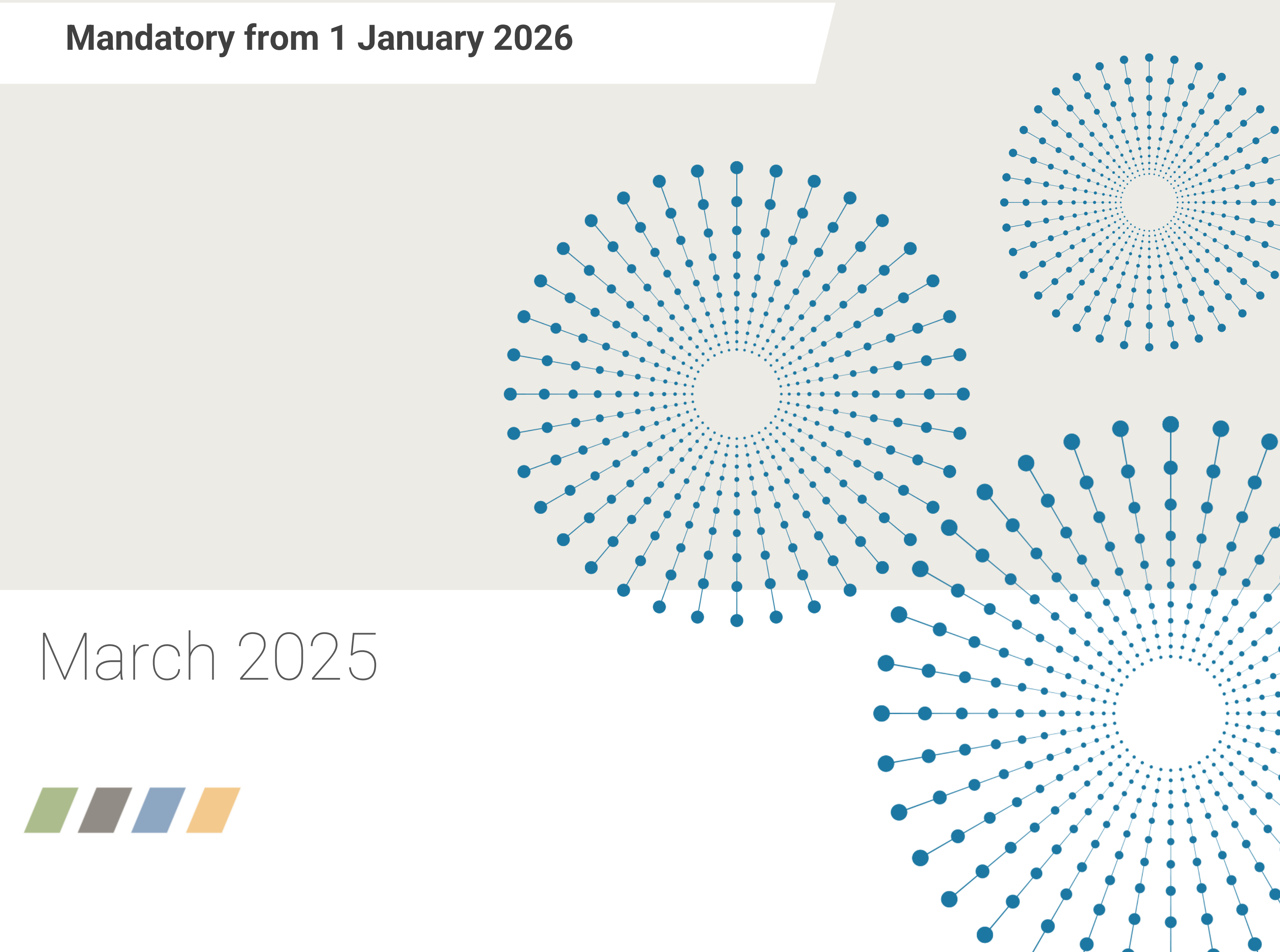
Q2. Does the Board APPROVE the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board, requesting approval to issue the amending standard?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

RDR Concessions - Amendments to the Classification and Measurement of Financial Instruments

Amendments to NZ IFRS 7

Mandatory from 1 January 2026



March 2025

RDR Concessions - Amendments to the Classification and Measurement of Financial Instruments

Issued March 2025

This Tier 2 for-profit amending Standard introduces disclosure concessions in response to new disclosures established by *Amendments to the Classification and Measurement of Financial Instruments,* issued 27 June 2024. This amending Standard modifies the disclosure requirements in NZ IFRS 7 *Financial Instruments: Disclosures*.

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 amending Standard

This amending Standard was issued on 13 March 2025 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 13 March 2025 and takes effect on 10 April 2025.

Commencement and application

The amending Standard has a mandatory date of 1 January 2026, meaning it must be applied by Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraph NZ 44MM.1–NZ 44MM.4 of this [draft] amending Standard.

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- **COMMENCEMENT AND APPLICATION** **6**

Part A – Introduction

This amending Standard modifies the disclosure requirements in NZ IFRS 7 *Financial Instruments: Disclosures* established by *Amendments to the Classification and Measurement of Financial Instruments,* issued 27 June 2024, for Tier 2 for-profit entities.

Part B – Scope

This Standard applies to Tier 2 for-profit entities. A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

Part C – Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs NZ 44MM.1, NZ 44MM.2, NZ 44MM.3 and NZ44MM.4 are added. For ease of reading these paragraphs have not been underlined. Asterisks are added to paragraphs 11A and 11B, which were amended by *Amendments to the Classification and Measurement of Financial Instruments* in June 2024, to indicate disclosure concessions for Tier 2 entities with respect to these paragraphs. The asterisks are underlined.

Significance of financial instruments for financial position and performance

...

Statement of financial position

...

Investments in equity instruments designated at fair value through other comprehensive income

*11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of NZ IFRS 9, it shall disclose for each class of investment:

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

(b) the reasons for using this presentation alternative.

(c) the fair value at the end of the reporting period.

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

(f) the fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss related to investments derecognised during the reporting period and the fair value gain or loss related to investments held at the end of the reporting period.

*11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) the reasons for disposing of the investments.

(b) the fair value of the investments at the date of derecognition.

(c) the cumulative gain or loss on disposal.

(d) any transfers of the cumulative gain or loss within equity during the reporting period related to the investments derecognised during that reporting period.

...

Commencement and application

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RDR Concessions – Amendments to the Classification and Measurement of Financial Instruments

NZ44MM.1 *RDR Concessions – Amendments to the Classification and Measurement of Financial Instruments*, issued in March 2025, amended disclosure requirements in paragraph 11A and 11B. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs NZ 44MM.2 - NZ 44MM.4. An entity that applies the amendments to an 'early adoption accounting period' shall disclose that fact.

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

NZ44MM.2 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 13 March 2025 and takes effect on 10 April 2025.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ44MM.3 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.**

NZ44MM.4 In paragraph NZ 44MM.3:

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 statements; and

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

mandatory date means 1 January 2026.

Memorandum

Date:	5 February 2025
To:	Michele Embling, Chair External Reporting Board
From:	Carolyn Cordery, Chair NZASB
Subject:	***RDR Concessions: Amendments to Classification and Measurement of Financial Instruments***

Introduction[1]

1. In accordance with the protocols established by the External Reporting Board, NZASB seeks your approval to issue *RDR Concessions: Amendments to Classification and Measurement of Financial Instruments,* which amends NZ IFRS 7 *Financial Instruments: Disclosure.*

2. The objective of issuing *RDR Concessions: Amendments to Classification and Measurement of Financial Instruments* is to introduce disclosure concessions for some of the disclosures established by the amending standard *Amendments to Classification and Measurement of Financial Instruments* previously issued by the NZASB in June 2024 ('the previous amending standard').

Due process

3. The NZASB issued the domestic Exposure Draft *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments* for consultation in December 2024. Comments were due to the NZASB on 31 January 2025. No comments were received.

4. The NZASB has approved *RDR Concessions: Amendments to the Classification and Measurement of Financial Instruments.* 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.

5. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

6. The amending standard is a standard in its own right and introduces to NZ IFRS 7 the following:

   (a) Disclosure concessions for two paragraphs (11A and 11B) that were added to and modified by the previous amending standard (these paragraphs require specific

[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).

disclosures about investments in equity instruments measured at fair value through other comprehensive income, e.g. information on fair value gains for investments that are still held at year end and those that were derecognised during the year); and

(b) New Zealand specific wording for the commencement and application of the amending standard.

7. The NZASB proposed disclosure concessions for paragraphs 11A and 11B for the following reasons:

   (a) The disclosure requirement did not relate to information the NZASB deems necessary to meet the needs of users of Tier 2 financial statements; and

   (b) the benefits of providing this information were not sufficient to outweigh the additional costs of providing the information.

8. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this, New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case by case basis.

9. In August 2024, the AASB released an exposure draft outlining proposed disclosure requirements for inclusion in AASB 1060. These proposals are in alignment with the disclosure requirements and concessions approved in our related amending standards. The AASB's final decision on these proposals is currently pending.

10. The issue of this amending standard is consistent with the elements of the Financial Reporting Strategy that are relevant to a domestic standard that introduces RDR concessions for Tier 2 for-profit entities: it retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the Accounting Standards Framework.

Commencement and application date

11. The commencement and application date requirements for the amending standard is included in Appendix A of this memo. An entity that is not an early adopter is required to apply the amending standard for accounting periods beginning on or after 1 January 2026. 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 (as defined in Appendix A).

Other matters

12. 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.

Recommendation

13. The NZASB recommends that you sign the attached approval certificate and certificate of determination on behalf of the External Reporting Board.

Attachments

Amendments to the Classification and Measurement of Financial Instruments

Approval certificate

Certificate of determination

Carolyn Cordery
Chair NZASB

Appendix A: Commencement and application

A1. The commencement and application provisions below will apply to the amending standard once it is published.

When standard takes effect (section 27 Financial Reporting Act 2013)

A2. This 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 13 March 2025 and take effect on 10 April 2025.

Accounting periods in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

A3. The accounting periods in relation to which this standard commences to apply are:

(a) for an early adopter, those accounting periods following, and including, the early adoption accounting period; and

(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.

A4. In applying paragraph A3:

early adopter means a reporting entity that applies the 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 statements; and

(ii) discloses in its financial statements for that accounting period that the standard has been applied for that period.

mandatory date means 1 January 2026.