XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Public Board Meeting Agenda

In-person meeting, Wellington — Wednesday, 4 December

Est Time	Item	Topic	Objective		Page
PUBLIC SESSION					
10.10 am	**3**	**PBE Revenue and Transfer Expenses**	(LvH and CB)		
30 min	3.1	Cover memo	Consider	Paper	3
	3.2	Board memo: Cost/benefit and way forward	Consider	Paper	6
10.40 am 15 min		**Morning tea**			
10.55 am	**3**	**PBE Revenue and Transfer Expenses (cont.)**	(LvH and CB)		
30 min	3.3	Board memo: Revenue	Consider	Paper	19
	3.4	Draft ED PBE IPSAS 47 *Revenue*	Consider	Paper	27
	3.5	Board memo: Transfer Expenses	Consider	Paper	212
	3.6	Draft ED PBE IPSAS 48 *Transfer Expenses*	Consider	Paper	220
11.25 am	**4**	**Update on PBE FRS 48 Service Performance Reporting**	(JC)		
65 min	4.1	Update on Reporting and Assurance of Service Performance Information	Discuss	Paper	266
	4.2	Service Performance Reporting Improvements (Detailed Accounting Overview)	Discuss	Paper	273
	4.3	Extracts from the Public Finance Act and Crown Entities Act	Note	Supp paper	-
	4.4	Mapping of NZASB ED 2016-6 to PBE FRS 48	Note	Supp paper	-
	4.5	Analysis of ED and workshop feedback against changes between NZASB ED 2016-6 and PBE FRS 48	Note	Supp paper	-
12:30 pm 60 min		**Lunch**			
1:30 pm	**5**	**Going Concern**	(TB)		
30 min	5.1	Board memo	Consider	Paper	294
2:00 pm	**6**	**IASB Exposure Draft *Equity Method***	(TB)		
30 min	6.1	Board memo	Consider	Late Paper	-
	6.2	Draft comment letter	Approve	Late Paper	-
2.30 pm	**7**	**RDR Concessions Policy – Tier 2**	(AS)		
45 min	7.1	Board memo	Consider	Paper	311
	7.2	RDR Concessions Policy	Discuss	Paper	331

Est Time	Item	Topic	Objective		Page
	7.3	Board memo *RDR Concessions – Amendments to the Classification and Measurement of Financial Instruments*	Consider	Paper	349
	7.4	Draft ED *RDR Concessions – Amendments to the Classification and Measurement of Financial Instruments*	Approve	Paper	364
	7.5	NZASB ED 2017-1 RDR Policy	Note	Supp paper	-
	7.6	August 2017 Cover Memo RDR Policy	Note	Supp paper	-
3:15 pm 15 min	**Afternoon tea**				
3:30 pm	**8**	**IASB Exposure Draft *Provisions – Targeted Improvements***	(NB)		
40 min	8.1	Board memo – Issues Paper	Consider	Paper	371
	8.2	IASB ED *Provisions – Targeted Improvements – Proposed amendments to IAS 37*	Consider	Paper	390
	8.3	IASB ED *Provisions – Targeted Improvements – Proposed amendments to Guidance on implementing IAS 37*	Consider	Paper	425
	8.4	IASB ED *Provisions – Targeted Improvements – Basis for Conclusions*	Consider	Paper	454
4.10 pm	**9**	**Concessionary leases – Application of the PBE Policy Approach**	(JC)		
30 min	9.1	Board memo	Consider	Paper	493
	9.1A	Decision chart for *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47 and IPSAS 48)	Consider	Paper	520
	9.2	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47 and IPSAS 48)	Consider	Paper	521
5.10 pm	**Finish**				

Next NZASB meeting: 20 February 2025, in-person Wellington

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 3.1

Memorandum

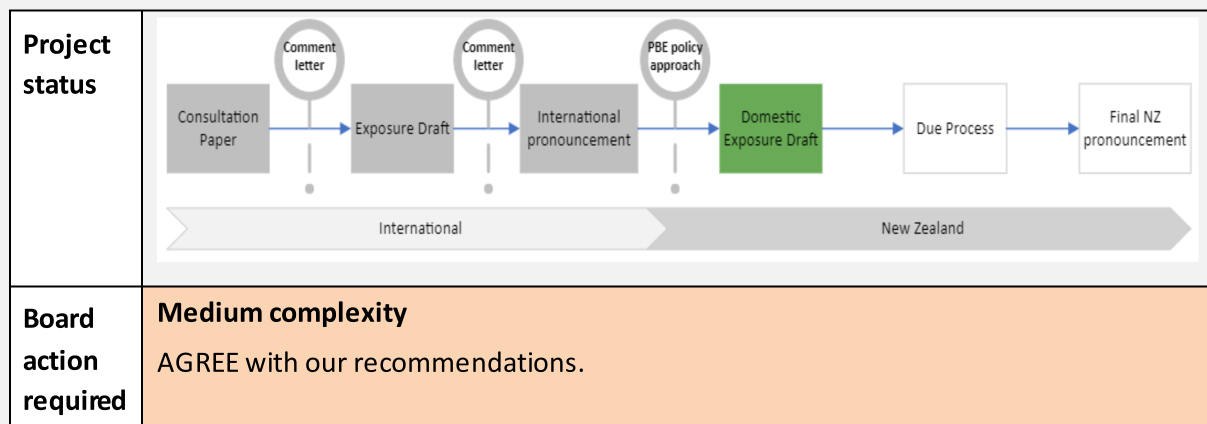
Date:	22 November 2024
To:	NZASB Members
From:	Leana van Heerden and Carly Berry
Subject:	**Cover memo – Revenue and Transfer Expenses**

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 and IPSAS 48 as respective starting points, while also ensuring that the standards are fit-for-purpose in New Zealand.
Cost/benefit considerations	The cost/benefit considerations of these projects were covered at the June 2023 NZASB meeting. An updated assessment of cost/benefit is addressed in agenda item 3.2.
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.

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.

Content of Agenda Item 3

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

Item #	Title
3.1	**Cover memo**
3.2	**Board memo: Cost/benefit and way forward** This agenda item sets out: • An updated assessment of the cost-benefit impact of introducing PBE IPSAS 47 and PBE IPSAS 48 in New Zealand; and • options for the timing of the PBE Revenue and Transfer Expenses consultations, along with our recommended revised project plan.
3.3	**Board memo: Revenue** This agenda item details our recommended drafting adjustments in response to the Board's feedback from the October 2024 meeting.
3.4	**Draft ED PBE IPSAS 47** The draft ED highlights the changes made since October 2024 and includes comments and questions to Board members.
3.5	**Board memo: Transfer Expenses** This agenda item details our recommended drafting adjustments in response to the Board's feedback from the October 2024 meeting.
3.6	**Draft ED PBE IPSAS 48** The draft ED highlights the changes made since October 2024 and includes comments and questions to Board members.

Appendix 1: Detailed timeline of actions

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
Consequential amendments to other PBE Standards	Both	✔	15 Oct 24
Bases of Conclusions	Both	✘	20 Feb 25

* The Board's feedback on these topics from the October meeting are addressed in this agenda item.

[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.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	22 November 2024
To:	NZASB Members
From:	Leana van Heerden & Carly Berry
Subject:	**Cost-benefit reflection and project direction**

Introduction and purpose

1. This purpose of this agenda paper is to:

   (a) reflect on, and re-assess, the costs and benefits of adopting IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses* in New Zealand; and

   (b) determine the most effective approach to the publication of the PBE EDs for comment, in light of our updated assessment on the aforementioned costs and benefits.

Recommendations

2. We recommend that the Board:

   (a) Provide FEEDBACK on the cost-benefit analysis of PBE IPSAS 47 and AGREE to issue the PBE ED in New Zealand;

   (b) Provide FEEDBACK on the cost-benefit analysis of PBE IPSAS 48 and AGREE to issue the PBE ED in New Zealand;

   (c) AGREE with our recommended approach to the publication of the PBE EDs for comment; and

   (d) AGREE with our recommended revised project plan.

Structure of this memo

3. This memo includes the following sections:

   (a) Steps and Considerations for PBE EDs IPSAS 47 and IPSAS 48 in New Zealand

   (b) Revenue – PBE Policy Cost vs Benefit Analysis

   (c) Transfer Expenses – PBE Policy Cost vs Benefit Analysis

   (d) Approach going forward

   (e) Not-for-profit consideration

   (f) Revised project plan

   Appendix 1 – Detailed timeline of planned actions

Steps and Considerations for PBE EDs IPSAS 47 and IPSAS 48 in New Zealand

4. The IPSASB issued IPSAS 47 and IPSAS 48 in May 2023. In line with the PBE Policy Approach, at the June 2023 meeting we recommended (and the Board agreed) to commence the development of new PBE Standards on revenue and transfer expenses using the IPSAS standards as starting points. A key objective of the PBE Revenue and PBE Transfer Expenses projects is to ensure that these new standards are fit-for-purpose in New Zealand.

5. Between June and August 2023, we identified the new principles in IPSAS 47 and IPSAS 48, along with key issues raised by New Zealand stakeholders on IPSASB ED 70 *Revenue with Performance Obligations*, ED 71 *Revenue without Performance Obligations*, and ED 72 *Transfer Expenses*. The primary topics for further consideration included binding arrangements, enforceability, and compliance obligations, as well as other concerns like revenue transaction liability recognition and the scope of transfer expenses. From October 2023 to October 2024, we assessed these topics to understand the new principles, how the key issues were addressed in IPSAS 47 and IPSAS 48, and to identify any remaining gaps or challenges relevant to New Zealand.

6. A key part of this process involved establishing a PBE Consultation Group, comprising individuals with practical expertise in the not-for-profit and public sectors. This group convened for three meetings on specific topics and challenges within the standards, providing insights that have been important in shaping our approach.

7. In September 2024, staff began drafting ED PBE IPSAS 47 and ED PBE IPSAS 48. The initial drafts were presented to the Board in October 2024, offering an opportunity for feedback and direction.

8. With the project at this juncture, it was decided to take time to reassess the cost-benefit considerations of adopting these standards in New Zealand. Based on feedback from the October 2024 NZASB meeting, we propose reviewing our approach to ensure that adopting IPSAS 47 and IPSAS 48 will deliver meaningful benefits that justify the costs. The objective of this review is to confirm that these standards, in their current form, are still expected to provide fit-for-purpose accounting standards that address the needs of New Zealand's public sector and not-for-profit entities.

Revenue - PBE Policy cost-benefit analysis

9. The IPSASB's issuance of IPSAS 47 is the culmination of eight years of consultation with stakeholders and in-depth standard-setting, including ensuring alignment to other IPSAS Standards. The IPSASB's primary objectives for developing a new revenue standard were to consider the extent to which the new revenue recognition model in IFRS 15 *Revenue from Contracts with Customers* should be introduced into the public sector standards and to address concerns about the existing IPSAS revenue standards[1]. These concerns included:

    (a) Challenges in classifying revenue transaction types between exchange and non-exchange, leading to uncertainty over which IPSAS revenue standard to apply;

[1] IPSAS 9 *Revenue from Exchange Transactions*, IPSAS 11 *Construction Contracts*, and IPSAS *23 Revenue from Non-Exchange Transactions*

(b) Challenges in accurately differentiating between various stipulations in revenue arrangements as either a condition or restriction, impacting the timing of when revenue can be recognised;

(c) Restrictive requirements of IPSAS 23 limiting entities' ability to defer revenue, often resulting in revenue being recognised upfront and the related expenses incurred in subsequent periods; and

(d) Insufficient guidance for specific transaction types (e.g. capital transfers and multi-year funding), creating uncertainty and inconsistencies in reporting practices.

10. The following cost-benefit analysis is guided by the PBE Policy Approach criteria, insights from the IASB's Post-Implementation Review (PIR) of IFRS 15, and other relevant considerations.

11. The IPSASB's IPSAS 47 Revenue at a Glance document, issued in May 2023, includes the benefits of IPSAS 47 on page 2. The analysis below incorporates these benefits.

PBE Policy Approach criteria – Benefits

Higher Quality Financial Reporting

12. IPSAS 47 consolidates revenue accounting guidance into a single source, addressing the limitations of previous IPSAS revenue standards (IPSAS 9, 11, and 23). This consolidation is anticipated to improve consistency and comparability in financial reporting, particularly as it provides guidance for specific transactions (e.g. multi-year funding, capital transfers, etc.).

13. Moreover, IPSAS 47 is closely aligned with the principles of 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, IPSAS 47 is well-equipped to address these increased complexities.

14. IPSAS 47 is a principles-based standard requiring the application of judgement – therefore it is inevitable that some diversity in practice would remain, even with New Zealand's adoption of this standard. However, 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. Given the limitations of previous IPSAS revenue standards, enhanced transparency and alignment with IFRS 15 principles, our view is that higher quality financial reporting in New Zealand would be achieved through adoption of this standard.

Relevance to the PBE Sector

15. Throughout this project, we have determined that there is no evidence to suggest that the core principles and guidance in IPSAS 47 would be inappropriate for not-for-profit entities, therefore there is no specific reason for the PBE sector to deviate from this Standard. Although IPSAS 47 was specifically developed for application in the public sector, it has undergone enhancements in New Zealand, particularly during the PBE Exposure Draft drafting process, to ensure its relevance for not-for-profit entities. These enhancements include additional guidance, exemptions, and other requirements. The broad relevance of IPSAS 47 ensures that the standard will be widely applicable across the PBE sector, establishing a

consistent framework for revenue recognition for both public sector and not-for-profit entities.

Coherence

16. The adoption of IPSAS 47 aligns with the overall suite of PBE standards, particularly with IPSAS 48 as well as the updated PBE Conceptual Framework. This alignment supports the coherence of the PBE suite of standards, provided both IPSAS 47 and IPSAS 48 are adopted. The consistent application of the concept of a "binding arrangement" across standards enhances the logical structure of the PBE framework.

17. Additionally, there is a significant risk of a loss of coherence within PBE Standards if IPSAS 47 and IPSAS 48 are not adopted, especially since these standards are key to a coherent IPSASB suite of standards. Misalignment could result in inconsistencies, fragmented reporting practices, and the loss of the benefits of international alignment.

Impact on Mixed Groups

18. For PBEs that operate within mixed groups (those that include both for-profit and not-for-profit entities), IPSAS 47's alignment with IFRS 15 principles will facilitate consistent revenue recognition practices, which is beneficial for groups that include entities reporting under both PBE Standards and NZ IFRS. The alignment between IPSAS 47 and IFRS 15 is recognised as a substantial benefit, promoting global harmonisation of revenue recognition standards and providing access to additional resources and guidance materials.

Cost considerations

19. We expect the following costs will apply to New Zealand stakeholders when applying PBE IPSAS 47:

    a. **Adoption Effort vs. Actual Change**: PBE IPSAS 47 may require substantial adoption effort, given its length and complexity, while ultimately it may result in minimal practical change for many entities. Refer to the insights from the IASB PIR IFRS 15 below, where this issue was also mentioned. Stakeholders might question the value of implementing such a lengthy and detailed standard for limited change.

       This is primarily a once-off cost associated with adoption.

    b. **Time and Resource Investment**: Stakeholders (such as preparers and auditors) would need to invest time and resources into understanding and staff training to apply the new principles and guidance. These costs would primarily be incurred upon transition. However, for PBE IPSAS 47, additional effort may be required due to its significantly longer and more detailed content compared to PBE IPSAS 48, which may increase the time required for familiarisation.

       The majority of these costs are once-off, incurred during transition, although occasional training for new staff may represent a minor ongoing cost.

    c. **Judgement and Ongoing Application Costs**: Applying PBE IPSAS 47 may involve significant judgement, which increases the risk of inconsistent application in practice. Ongoing costs would arise each time an entity enters a new revenue arrangement or when an existing

arrangement is modified. For not-for-profit entities, these costs may be heightened due to their limited staff capacity and the number of arrangements they need to assess.

This is primarily a once-off cost but will also involve ongoing costs due to the need for continued assessment of new or modified revenue arrangements.

d. **Impact on Cohesion of PBE Standards**: We acknowledge that revenue is a significant topic in PBE accounting. If PBE IPSAS 48 is not adopted, then there would be inconsistent principles applied in revenue and transfer expense accounting which would reduce cohesion within the PBE suite of standards. This may also undermine our strategy regarding the development of accounting standards for PBEs.

Insights from the IASB PIR of IFRS 15

20. The insights from the IASB's PIR of IFRS 15 provide valuable context for New Zealand's adoption of IPSAS 47, as the principles underlying both standards are closely aligned. The following paragraphs will examine these insights.

21. The IASB's PIR of IFRS 15 concluded that IFRS 15 generally functions as intended in supporting more consistent revenue recognition and providing useful information to users. Additionally, no fatal flaws were identified with the core objectives or principles in the requirements in IFRS 15.

22. During the initial implementation, entities noted considerable expenditure in adapting systems, streamlining controls and training staff. This transition phase required substantial time to ensure complexities are considered and accurate application across diverse revenue contracts.

23. For most entities, ongoing costs have decreased over time and are seen as acceptable. The recurring costs are mainly associated with maintaining system adjustments and periodic staff training to keep up with evolving complexities in revenue streams. However, the ongoing costs remain significant in some industries such as telecommunications.

24. Alongside the costs, IFRS 15 provides several key benefits. Entities reported that the standard has improved consistency in revenue recognition practices supporting comparability across industries. The added disclosure requirements allow users to gain a better understanding of revenue streams, performance obligations, and management judgments, thus fostering more informed decision-making. Other benefits of IFRS 15 included better knowledge of contracts, improved internal processes and controls, and greater collaboration between accounting and business functions.

25. The PIR identified some areas for refinement, including clarifications on specific issues such as principal versus agent considerations for services and intangible assets, applying IFRS 15 alongside other IFRS Accounting Standards, etc. These issues, though deemed low priority, were added to the IASB's next agenda consultation for further exploration.

26. Overall, most stakeholders indicated that the benefits of IFRS 15 outweigh the costs. However, a few stakeholders questioned the cost-benefit balance for entities whose financial statements were least affected.

27. The PIR demonstrates that the core objectives and principles of IFRS 15—on which IPSAS 47 is based—are effective in achieving consistent revenue recognition and providing decision-

useful information. These findings reinforce the expectation that adopting IPSAS 47 will lead to similar benefits for PBEs in New Zealand, such as enhanced comparability and improved reporting quality.

Other relevant considerations

28. Our discussions with the PBE Consultation Group highlighted areas of concern or potential difficulty[2]. Upon further review of the requirements in IPSAS 47 and IPSAS 48, it was determined that these concerns are largely addressed either in the authoritative or non-authoritative requirements. Therefore, as part of this process, no additional guidance has been identified as necessary for inclusion in PBE IPSAS 47 and PBE IPSAS 48.

Conclusion on the cost/benefit analysis – provided stakeholders are adequately supported during transition.

29. Adopting IPSAS 47 in New Zealand is expected to enhance the quality and consistency of revenue reporting within the not-for-profit and public sector. By consolidating revenue accounting guidance into a single standard, IPSAS 47 addresses the limitations of previous standards. The alignment with 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.

30. While the initial adoption may require effort and investment, the long-term benefits are expected to outweigh the costs. Therefore, staff recommend proceeding with issuing PBE ED IPSAS 47.

31. Finally, the PBE EDs Consultation Papers will include a question inviting stakeholders to share their views on the expected benefits and the initial and ongoing costs of adopting both PBE IPSAS 47 and PBE IPSAS 48. This feedback will provide valuable insights into the specific cost-benefit considerations relevant to New Zealand, supporting informed decision-making on the adoption of these standards.

Questions for the Board

Q1. Does the Board have any feedback on our cost-benefit analysis for the PBE Revenue project?

Q2. Does the Board AGREE with the recommendation to proceed with issuing PBE ED IPSAS 47 in New Zealand?

Transfer Expenses – PBE Policy cost vs benefit analysis

32. The IPSASB's issuance of IPSAS 48 in May 2023 was the culmination of eight years of consultation with stakeholders and in-depth standard-setting, with alignment to the concepts within the IPSASB's Conceptual Framework at the core of the standard.

33. The IPSASB's primary objective for developing IPSAS 48 was to fill the significant gap in the IPSASB's literature relating to transfer expenses. The lack of explicit 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.

[2] Questions were raised regarding appropriations, hypothecated taxes, bequests, multi-party community initiatives, etc. These issues raised were discussed during the May 2024 and June 2024 NZASB meetings.

34. This IPSAS 48 cost-benefit analysis is guided by the PBE Policy Approach criteria and other relevant considerations.

PBE Policy Approach criteria – Benefits

Higher Quality Financial Reporting

35. In New Zealand, there is no domestic standard addressing transfer expense transactions. Therefore, PBEs are responsible for determining their own accounting policies for the reporting of these transactions. This has led to diversity in practice across the public sector and not-for-profit sectors, with entities looking to various sources such as:

    (a) the PBE Conceptual Framework

    (b) PBE IPSAS 23 (applying a 'reverse' approach)

    (c) PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

36. We note that NZ Treasury published *Guidance on Recognising Liabilities and Expenses* in 2013. Such guidance helps to fill the existing gap in PBE literature on non-exchange expenses; however:

    (a) the focus of the guidance is on the liability side – i.e., when to recognise a provision, particularly for an obligation which is not exchanged.

    (b) the guidance is specifically written for public sector PBEs and does not contemplate not-for-profit PBEs.

37. IPSAS 48 was developed, through several years of IPSASB discussion and stakeholder engagement, to deal specifically with the accounting for transfer expenses. Therefore, the standard contains fundamental principles and guidance to assist entities in accounting appropriately for these transactions. Such guidance also specifically addresses certain NZ constituent concerns which we have identified during our preliminary outreach on this project – such as the impact of appropriations on the accounting as well as the accounting for multi-year arrangements.

38. IPSAS 48 is a principles-based standard requiring the application of judgement – therefore it is inevitable that some diversity in practice would remain, even with adoption of this standard in NZ. However, in light of the current gap in PBE literature and for the reasons noted above, our view is that higher quality financial reporting in NZ would be achieved through adoption of this standard.

Relevance to the PBE sector

39. IPSAS 48 was developed to be applied by the public sector. Throughout this project, we have determined that there is no evidence to suggest that the core principles and guidance in IPSAS 48 would be inappropriate for not-for-profit entities, therefore there is no specific reason for the PBE sector to deviate from this Standard. This broad relevance ensures that the standard will be widely applicable across the PBE sector, establishing a consistent framework for transfer expense recognition for both public sector entities and not-for-profit entities.

Coherence

40. Since the PBE suite of standards is primarily based on IPSAS, adopting IPSAS 48 into the PBE suite of standards is highly unlikely to impact negatively on the coherence of the suite. Specifically, IPSAS 48 is aligned with IPSAS 47 with respect to the concept of a "binding arrangement", which is fundamental to the accounting for both revenue and transfer expenses under IPSAS. Therefore, if IPSAS 47 is adopted into the PBE suite of standards, doing the same with IPSAS 48 would enhance the coherence of the PBE suite of standards. Additionally, there is a significant risk of not aligning going forward, especially since IPSAS 47 and IPSAS 48 are key to a coherent IPSASB suite of standards. Misalignment could result in inconsistencies, fragmented reporting practices, and the loss of the benefits of international alignment.

Impact on Mixed Groups

41. Accounting for transfer expenses is a topic which primarily concerns PBEs and so there is no for-profit standard for transfer expenses, whether equivalent to IPSAS 48 or not. Therefore, the impact on mixed groups is not a relevant consideration and is therefore not considered further in the cost/benefit analysis.

Cost considerations

42. We expect the following costs will apply to NZ stakeholders if we develop a PBE Standard using IPSAS 48 as a starting point.
    (a) Stakeholders (such as preparers and auditors) would need to invest time and resources into understanding and applying the new principles and guidance. These costs would only be incurred upon transition.
    (b) Significant judgement is required in the application of the principles, which increases the risk of inconsistent application in practice. These costs are ongoing and would be incurred each time the entity enters into a new transfer arrangement or when a transfer arrangement is modified.
    (c) If IPSAS 47 is not adopted, then there would be inconsistent principles applied in revenue and transfer expense accounting which would reduce cohesion within the PBE suite of standards.

Conclusion on the cost/benefit analysis

43. In our view, the benefits of adopting IPSAS 48 exceed the costs – therefore, we recommend proceeding with issuing ED PBE IPSAS 48.

44. As an additional support to the cost/benefit analysis, we acknowledge that transfer expenses is a significant topic in PBE accounting, particularly for public sector PBEs.

Questions for the Board

Q3.	Does the Board have any feedback on our cost/benefit analysis for the PBE Transfer Expenses project?
Q4.	Does the Board AGREE with the recommendation to proceed with issuing PBE ED IPSAS 48?

Approach to publication of the PBE EDs

45. We have reaffirmed that the benefits of adopting IPSAS 47 and IPSAS 48 in New Zealand outweigh the associated costs. Therefore, our next steps are to finalise PBE EDs for Board approval and issue them for public consultation. However, our analyses have highlighted that adopting these standards would be a significant undertaking for stakeholders, with potentially significant implementation costs incurred – particularly for IPSAS 47.

46. With this concern in mind, we have considered our approach to the timing of the Revenue and Transfer Expense consultations. We have identified three options in Table 1 below.

Table 1: Options for the way forward

	Pros	Cons
Option 1 – Publish both PBE EDs together in March 2025	• Allows the EDs to be released for public comment promptly, shortly after Board approval (which we will be seeking in February). • Maintains the existing timeframe, which we have publicly communicated through outreach activities[3] – stakeholders may therefore be expecting us to open the consultation in February. • Allows stakeholders to consider both EDs together, which is especially beneficial for those entities with both revenue and transfer expense arrangements.	• Limited time to develop guidance and produce webcasts to support the EDs • Insights and lessons learned from other jurisdictions are not yet available. • Current economic environment may affect stakeholders' engagement in the consultation.
Option 2 – Publish ED PBE IPSAS 48 first	• Eases the burden on stakeholders if the EDs are issued one at a time, while still allowing stakeholders to become familiar with the fundamental principles common to both EDs.	• Stakeholders lose the chance to consider both PBE EDs together. • There may be confusion due to disjointed financial reporting. • More time consuming in the long run. • May create confusion among stakeholders expecting a revenue ED at the same time.
Option 3 – Publish both PBE EDs together in Q2 2025	• Time available to develop guidance and produce webcasts to support the EDs. • Allows stakeholders to consider both EDs together, which is especially beneficial for those	• The mandatory date for the new standards would need to be delayed by at least a year (i.e. to 1 January 2029) to provide stakeholders with enough time for implementation – leading to a delay in addressing current reporting challenges (e.g. diversity

[3] Specifically, through the Treasury FDP lunchtime session on 16 October.

	Pros	Cons
	entities with both revenue and transfer expense arrangements. • Stakeholders may be more willing to engage when the economic environment improves. • Feedback and learnings from other jurisdictions can be taken into account (if available).	in transfer expense accounting) and alignment of revenue accounting with the for-profit sector. • May create coherence challenges with the PBE suite of standards. • Stakeholders expecting EDs in February may query the delay.

Analysis of the pros and cons

47. In our view, Option 3 is the preferred approach for the following reasons:

(a) Allowing stakeholders to consider both EDs together is a substantial benefit which does not have a significant downside, especially if the length of the consultation period gives stakeholders enough time to fully grasp the fundamental principles and how these apply to both revenue and transfer expense transactions. We are also mindful of the fact that stakeholders may end up having to take more time (and therefore increase costs) in the long run to consider these EDs, if they are released separately. Option 2 is therefore not an appropriate approach to take.

(b) Both Options 1 and 3 enable stakeholders to consider the EDs concurrently (which we noted as a substantial benefit above). However, the complexities encountered during the development of the PBE EDs, particularly in relation to revenue, necessitate educational support for stakeholders during the consultation period. Ideally, this support should be available upon publication of the EDs to maximize our engagement with stakeholders from the outset and ensure effective participation. Postponing the issuance of the EDs will provide us with the necessary time to create this support.

(c) We acknowledge the downsides of taking option 3, as noted in Table 1 – one of which is the deviation from the publicly communicated timeframe. However, we can easily inform stakeholders of the change in timing, as well as the reasons for this. Also, in our view, delaying the mandatory date for these new standards by a year:

(i) would not outweigh the benefits of a well-planned and executed consultation period with adequate educational support. Such a consultation period increases the likelihood of successful stakeholder engagement, which in turn increases the likelihood of adoption of these standards in New Zealand.

(ii) would not create significant coherence challenges, as long as our project plans for other PBE Standards take this delay into account and is reflected in the timing of other consultations / proposed mandatory dates, etc.

Question for the Board

Q5. Does the Board agree with our preferred option for the consultation on the PBE EDs?

Not-for-profit considerations

48. In developing the options for the way forward, we considered whether we should follow a separate approach for not-for-profit entities – for example:

    (a) Consult on, and ultimately adopt, new standards on revenue and transfer expenses for the public sector only; or

    (b) Consult on the PBE EDs in the public sector first and then later for not-for-profit entities.

49. We decided not to explore this approach further, for the following reasons:

    (a) To reduce complexity in PBE reporting, we want to maintain, as far as possible, alignment of the financial reporting requirements across the two PBE sectors. Maintaining the current revenue PBE Standards for not-for-profit PBEs, as well as introducing PBE IPSAS 47 for public sector PBEs, would increase complexity.

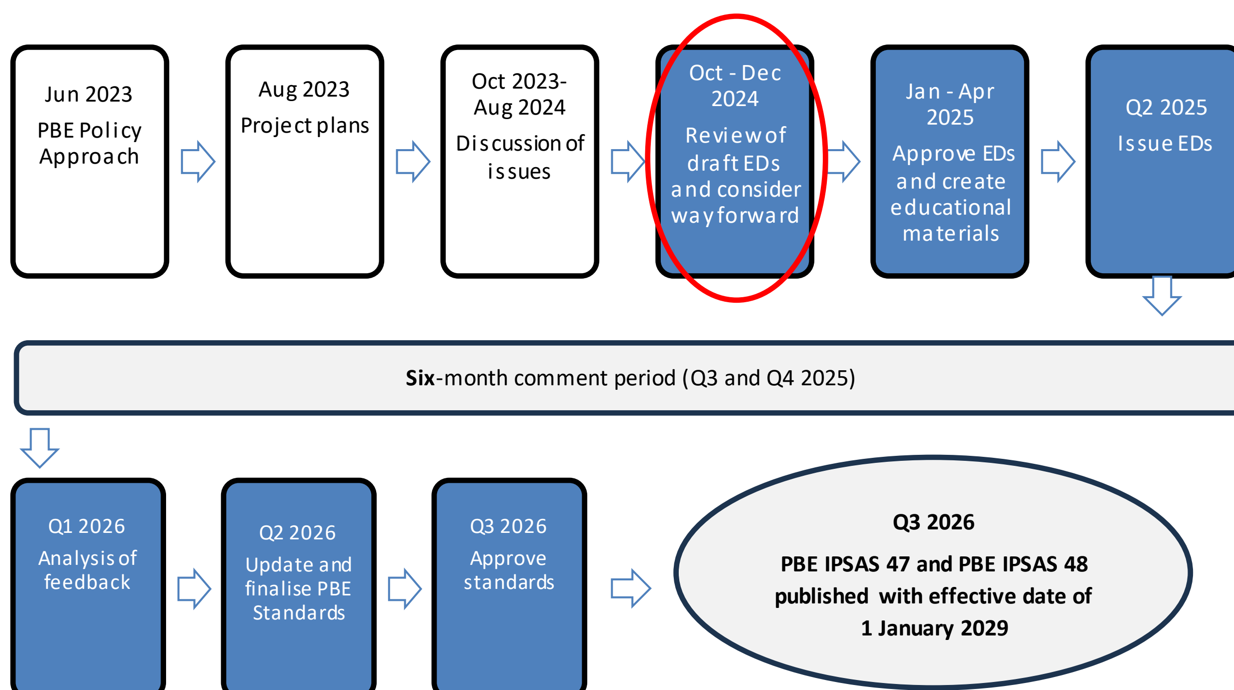
    (b) As noted in our cost-benefit analyses, the fundamental principles can be applied in both the public sector and not-for-profit sectors without substantive adjustment, making it difficult to justify the need for different reporting requirements within the PBE sector.

    (c) In our view, not-for-profit entities will benefit from application of robust standards that promote transparency, discourage the premature or inconsistent recognition of revenue and provide much-needed guidance on accounting for transfer expenses.

Revised project plan

Timeline summary

50. Following our recommendation of Option 3 for the consultation timing of the PBE EDs, we have updated the project timelines. 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.



51. The updated project timeline sets the PBE EDs to be published in Q2 of 2025 with a six-month comment period. Given that the two PBE EDs will be released simultaneously, along with the length of the revenue standard and complexities that may arise due to the new principles in these standards we concluded that a six-month consultation period will provide stakeholders with sufficient time to assess the impact and prepare a well-informed response to these EDs.

52. From now until Q2 of 2025, we will be developing educational support materials to be made available upon the release of the PBE EDs. The objective is for stakeholders to have immediate access to this guidance, ensuring their analysis of the impact of the proposals in the EDs is comprehensive from the outset.

53. We are currently determining the content of the educational support materials. At a minimum, it is expected to include 5-6 webcasts covering the overarching principles in the standards, recognition and measurement of revenue, recognition and measurement of transfer expenses, and other relevant topics deemed necessary for inclusion in the webcasts. We expect that this material will, to the extent possible, use simplified language to assist stakeholders with understanding these topics.

54. The Board's discussion at the October 2024 meeting about conducting field testing was considered. Following this, we contacted other XRB staff members who have previously attempted field testing in past projects and held discussions with IASB staff regarding their field testing methods. These discussions revealed that international standard setters rarely conduct field testing, and when they do, it typically occurs during the exposure draft phase. After evaluating these discussions, it was determined that the time and costs required by the entity(ies) undergoing field testing are likely to outweigh any benefit. Additionally, identifying and retaining willing participants may prove difficult — judging from the experiences of other XRB staff and international standard setters. Furthermore, field testing at this stage could delay the project beyond the current extended timeline.

55. However, as part of our consultation document, we will include an invitation for entities interested in field testing to contact us. This approach would allow us to assess the feasibility of field testing on a case-by-case basis.

56. Additional details regarding our proposed outreach activities will be presented to the Board at the April 2025 meeting, following the creation of the educational support materials. This will provide an opportunity to develop a comprehensive outreach plan that aligns with the available guidance.

Question for the Board
Q6. Does the Board agree with our revised project plan?

Appendix 1: Detailed timeline of planned actions

Date (est)	Project activity
Approval of PBE EDs	
February/ April 2025	Review and approval of the EDs and Consultation Documents (February or April NZASB meeting) 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.

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Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	22 November 2024
To:	NZASB Members
From:	Leana van Heerden
Subject:	**ED PBE IPSAS 47 *Revenue***

Introduction and purpose

1. The purpose of this memo is to seek the Board's agreement with our recommendations relating to the additional illustrative example 24A, which demonstrates binding arrangement liability recognition for a revenue transaction involving receipt of resources for an entity's internal use. This recommendation, as well as further drafting adjustments, addresses the Board's feedback on the draft ED PBE IPSAS 47 at the October 2024 meeting.

2. This memo should be read in conjunction with agenda item 3.4, which contains a marked-up version of the ED. This draft ED includes the Board question in a turquoise box, alongside the relevant paragraphs. Further drafting adjustments are highlighted in blue within the draft ED.

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

4. We are not seeking approval of the draft ED at this meeting – we plan to do so at the February/April 2025 meeting.

Recommendations

5. We recommend that the Board:

   (a) AGREES with the recommended addition of Illustrative Example 24A, that demonstrates revenue deferral for the receipt of resources for an entity's internal use; and

   (b) AGREES with the further drafting adjustments.

Structure of this memo

6. This memo includes the following sections.

   (a) Illustrative example 24A

   (b) Further drafting adjustments

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

Illustrative example 24A (pages 154 - 155 of the draft ED)

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

8. At the October 2024 meeting, the Board was asked about their stance on the expanded Illustrative Example 20. The Board agreed to retain the expanded Illustrative Example 20 and suggested including an additional example specifically focused on this topic. As a result, Illustrative Example 24A has been drafted and incorporated into the draft ED.

Question for the Board
Q1. Does the Board AGREE with the proposed addition of illustrative example 24A, contained in agenda item 3.4 pages 154 – 155, paragraphs IE145.1 – 145.4?

Further drafting adjustments

9. During the October 2024 meeting, the Board recommended the following additional modifications:

   (a) Consequential Amendment PBE IPSAS 1 Illustrative Financial Statement Structure –

      (i) Replace the descriptions "Category 1, 2, etc" with specific examples of not-for-profit revenue streams.

      (ii) Include an asterisk to indicate that these not-for-profit revenue streams are only examples and not prescriptive according to the disclosure requirements.

      (iii) Add sub-totals for total revenue from binding arrangements and total revenue without binding arrangements.

      (iv) Include a second asterisk to indicate that revenue categories can be either presented on the face of the Statement of Comprehensive Revenue and Expenses or disclosed in the notes. This should apply to both not-for-profit and public sector illustrations.

   These modifications are included in agenda item 3.4, page numbers 85–88 of the draft ED.

   (b) Remove Illustrative Example 45 and Illustrative Example 47 from the draft ED. These modifications have been actioned but cannot be seen in the draft ED, refer to agenda item 3.4, page 173–174.

   (c) The not-for-profit Implementation Guidance from PBE IPSAS 23 *Revenue from Non-Exchange Transactions* is to be incorporated into Implementation Guidance Section G in the draft ED. Staff initiated the conversion of this guidance to align with the principles of IPSAS 47. However, certain parts of the guidance are specifically designed to illustrate non-exchange transaction principles as per PBE IPSAS 23. To adapt this guidance

appropriately for the draft ED, further research is necessary. Staff will consult with practitioners and auditors in the not-for-profit sector that frequently engage with such transactions to support this research. Consequently, the converted not-for-profit guidance will be included in the draft ED for review at the February 2025 meeting.

10. In addition, in line with changes to the disclosure requirements in PBE IPSAS 48, we replaced the words insignificant/significant with immaterial/material in paragraphs 168 and 183 of PBE IPSAS 47.

11. *Replacing the word "significant" with the word "material" in paragraphs 183* – "material" is a defined term in PBE Standards, whereas "significant" is not defined in any PBE Standard. Using a defined term reduces potential confusion when applying the disclosure requirement and emphasises the need to make a materiality judgement when applying these paragraphs. Similarly, we have replaced the word "insignificant" with the word "immaterial" in paragraph 168. Such a replacement allows for closer alignment with the wording in PBE IPSAS 1.45–47.

Question for the Board

Q2. Does the Board AGREE with the proposed further drafting adjustments?

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

Meeting	Outcome	Action
October 2024	The Board AGREED with:	
	Deleting the sentence in paragraph 9.	No additional action is necessary. The referenced modifications to each outcome have been incorporated into the draft ED per Agenda item 3.4.
	The replacement of current value with fair value in paragraphs 30, 129-131, AG31, AG104 and IE305.	
	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.	
	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 paragraph 9(a) above and 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 have been incorporated into the draft ED per Agenda item 3.4.
	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.	

Meeting	Outcome	Action
	Not adding a definition of appropriations to the definition section of PBE IPSAS 47.	
	The inclusion of the PBE IPSAS 23 NZ Not-for-Profit guidance in PBE IPSAS 47 Implementation Guidance section G.	Refer to paragraph 9(c) above, this NFP guidance will be included in the draft ED to be tabled at the February 2025 NZASB meeting.
	Retaining the expanded illustrative example 20 in paragraphs IE117-IE119 and recommended including an additional Illustrative Example focused on the deferral of revenue when resources are received for an entity's internal use. Furthermore, it was suggested that the PBE Basis for Conclusion should include information highlighting the modifications to PBE IPSAS 47 Illustrative Examples that emphasise the requirements on this topic.	**Refer to paragraphs 7 – 8 above as well as question 1.** **The Basis for Conclusion will be included in the February 2025 Board meeting.**
	The scenario detail in Illustrative Example 35 Case A1 in paragraph IE205.1.	No additional action is necessary.
	The Board recommended to remove Illustrative Example 45 and Illustrative Example 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 Illustrative Examples.	**Refer to paragraph 9(b) above.** **The Basis for Conclusion will be included in the February 2025 Board meeting.**
August 2024	The Board AGREED:	
	• to retain, unaltered, the binding arrangement requirements in IPSAS 47 *Revenue* regarding the allocation of the transaction price;	No action required.
	• to add, within IPSAS 47 Implementation Guidance, a reference to the binding arrangement requirements for allocation of the transaction price as a method to proportion and recognise revenue across multiple obligations in transactions without binding arrangements;	**ED PBE IPSAS 47 Implementation Guidance Paragraph C3.**
	• to expand on Illustrative Example 35 in IPSAS 47 to include a scenario where the transaction is without a binding arrangement;	**ED PBE IPSAS 47 Illustrative Example 35.**

Meeting	Outcome	Action
	• that ED PBE IPSAS 47 and ED PBE IPSAS 48 do not need further New Zealand-specific guidance on appropriations;	No action required.
	• to retain, unaltered, the new terminology introduced by IPSAS 47 and IPSAS 48.	No action required.
	The Board NOTED the analysis regarding the expected implications of accounting for revenue and expenses under the proposed requirements in ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses*, specifically with respect to entities transitioning from Tier 2 to Tier 3 PBE Accounting Requirements (and vice versa).	No action required.
June 2024	The Board AGREED with staff recommendations to:	
	• include an illustrative example in draft PBE IPSAS 47 that demonstrates the deferral of revenue in transactions involving resources received for an entity's internal use with varying consequences – however, before adding a new illustrative example, the staff will first evaluate whether an existing example can be expanded upon; and	**ED PBE IPSAS 47 Illustrative Example 20.**
	• elaborate in the Basis for Conclusions of draft PBE IPSAS 47 on the NZASB consideration of the deferral of revenue for transactions with binding arrangement where an entity receives resources for its internal use.	**To be actioned during the drafting of the Basis of Conclusions paragraphs for ED PBE IPSAS 47**
	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:	

Meeting	Outcome	Action
	○ removing the reference to IPSAS 24 *Presentation of Budget Information in Financial Statements* from the IPSAS 47 and IPSAS 48 Implementation Guidance.	**ED PBE IPSAS 47 IG B.3**
	○ rewording the definition of appropriations as – an authorisation granted by a legislative body (i.e. the enabling authority) to ~~allocate funds~~ incur expenses or capital expenditure for the purpose specified by the legislature or similar authority – i.e. removing the strike through words and adding the underlined words.	**ED PBE IPSAS 47 IG B.3**
	○ considering if there are other changes required to the guidance on appropriations in the IPSAS 47 and IPSAS 48 Bases for Conclusions, Implementation Guidance and Illustrative Examples to align with the New Zealand context.	**ED PBE IPSAS 47 Illustrative Example 7**
	• Provided FEEDBACK on staff's intention to develop non-authoritative guidance and/or educational material for: ○ The interaction between the new PBE Standards and PBE IPSAS 19. ○ The accounting for multi-party community initiatives.	To be actioned before the outreach activities in Feb – Jun 2025.
October 2023	The Board AGREED that:	
	• 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.

Meeting	Outcome	Action
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.

![XRB logo] Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 3.4

Proposed new accounting standard for revenue

PBE IPSAS 47 *Revenue*

Exposure Draft

Submissions close [xx] 2025

Note to the Board:

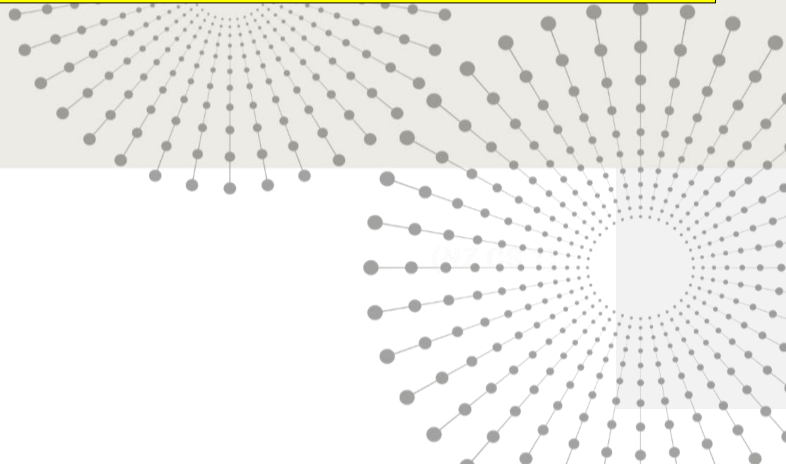
Changes from the NZASB October 2024 draft ED have been highlighted in **blue**.

The removal of Illustrative Examples 45 and 47 have not been highlighted.

Notes to Board members are included in comment boxes in certain areas, mostly where a modification to the IPSAS has been made since the October 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 7.2 where we discuss our recommendations.

The Board question is included in a **turquoise** box within the body of the draft ED.

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



February 2025

NZASB EXPOSURE DRAFT 2025-[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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PBE IPSAS 47 REVENUE

CONTENTS

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

Appendix A: Application Guidance

Appendix B: Amendments to Other PBE Standards

Basis for Conclusions

Implementation Guidance

Illustrative Examples

Comparison with NZ IFRS 15

Comparison with IPSAS 47

The following is available on the XRB website as additional material

IPSASB Basis for Conclusions

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

Objective

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

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

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

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

Scope

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

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

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

   (a) [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.

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:**

[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~~insignificant~~ detail or the aggregation of items that have substantially different characteristics. See paragraphs AG203–AG204 for additional guidance.

Commented [LV1]: Note to Board Members
To align with the disclosure modifications to PBE IPSAS 48, the term 'insignificant' was replaced with 'immaterial.' Similarly, as noted in paragraph 183, the term 'significant' was replaced with 'material.' Refer to paragraphs 10 -11 in agenda item 3.3.

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 materialsignificant 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;

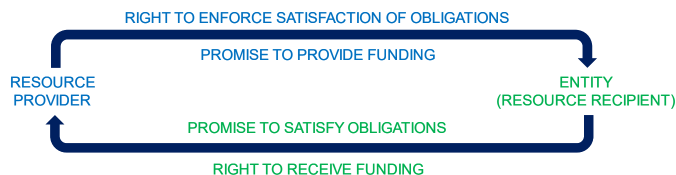
(b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser[8], as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or

(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.

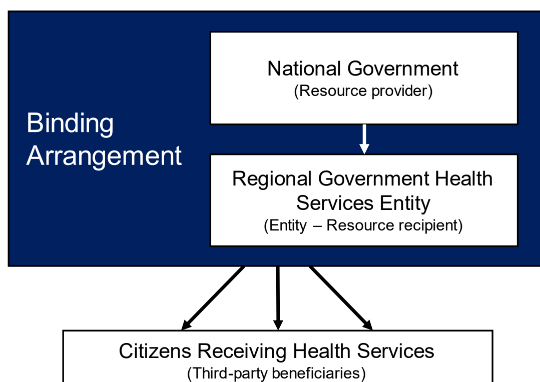
AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must

[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:

AG115. Whether the warranty is required by law – if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a compliance obligation because such requirements typically exist to protect resource providers from the risk of purchasing defective products.

(a) The length of the warranty coverage period – the longer the coverage period, the more likely it is that the promised warranty is a compliance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

(b) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a compliance obligation.

AG116. 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.

AG117. 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

AG118. 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.

AG119. 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.

AG120. 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.

AG121. 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.

AG122. 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.

AG123. 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.

AG124. 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.

AG125. 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.

AG126. 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

AG127. 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.

AG128. 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.

AG129. 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.

AG130. 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.

AG131. 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

AG132. 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.

AG133. 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.

AG134. 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.

AG135. 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

AG136. 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.

AG137. 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.

AG138. 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.

AG139. 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

AG140. 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

AG141. 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.

AG142. 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.

AG143. 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

AG144. An entity may, but is not required to, recognise services in-kind as revenue and as an asset.

AG145. 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.

AG146. 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.

AG147. 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.

AG148. 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.

AG149. 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.

AG150. 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

AG151. 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

AG152. 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

AG153. 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.

AG154. 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

AG155. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity receives consideration in a form other than cash, the non-cash consideration is initially measured ~~at its current value~~ in accordance with relevant PBE Standards;

(a) Assets such as property, plant and equipment, inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date;

(b) [Not used]; 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

AG156. 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.

AG157. 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.

AG158. 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.

AG159. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG160. 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.

AG161. 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

AG162. 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.

AG163. 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.

AG164. 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

AG165. 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.

AG166. 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.

AG167. 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~~of recognising~~ the goods at the date of acquisition outweigh the benefits. This will often be the case for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution. In the case where goods in-kind are sold, the entity recognises revenue when they are sold. In the case where such goods in-kind are distributed free of charge, the entity does not recognise revenue.

Commented [LV2]: Note to Board Members
Based on feedback from a Board member, the wording has been adjusted to accurately reflect that it is the cost of measuring the fair value, rather than the cost of recognizing the goods, that outweighs the benefits. This distinction ensures clarity in attributing the source of the cost-benefit imbalance.

AG168. 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

AG169. 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.

AG170. 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.

AG171. 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).

AG172. 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.

AG173. 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

AG174. 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).

AG175. 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.

AG176. 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.

AG177. 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).

AG178. 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.

AG179. 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).

AG180. 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

AG181. 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).

AG182. 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).

AG183. 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

AG184. 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.

AG185. 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.

AG186. 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

AG187. 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.

AG188. When comparing the repurchase price with the original price, an entity shall consider the time value of money.

AG189. 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).

AG190. If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

A Put Option

AG191. 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.

AG192. 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.

AG193. 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.

AG194. 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.

AG195. 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.

AG196. When comparing the repurchase price with the original price, an entity shall consider the time value of money.

AG197. If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

Consignment Arrangements

AG198. 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.

AG199. 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

AG200. 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.

AG201. 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.

AG202. 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.

AG203. 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)

AG204. An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

AG205. 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)

AG206. 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.

AG207. 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.

AG208. 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

…

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

Commented [LV3]: Note to Board Members
During the October 2024 meeting, the Board recommended modifications to the Consequential Amendment PBE IPSAS 1 Illustrative Financial Statement Structure.
Refer to paragraph 9a in agenda item 4.3 for further detail.

These modifications are reflected from page 85 to page 88 of the draft ED.

	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 ~~R~~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**		
~~Revenue from compliance obligations in a binding arrangement~~		
Total revenue from compliance obligations in a binding arrangement	XX	XX
~~Category 1 (e.g.~~ Fees and other revenue from members*~~)~~	X	X
~~Category 2 (e.g.~~ Revenue from providing goods or services*~~)~~	X	X
Total ~~Transfers~~revenue without binding arrangements	XX	XX
~~Category 3 (e.g.~~ Bequests and Donations*~~)~~	X	X
~~Category 4 (e.g.~~ Grants received*~~)~~	X	X
Other revenue without binding arrangements	X	X
Interest, dividends and other investment revenue	X	X
Total revenue	X	X
…	…	…
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 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**		
~~Revenue from compliance obligations in a binding arrangement~~		
Total revenue from compliance obligations in a binding arrangement	XX	XX
~~Category 1 (e.g.~~ Fees and other revenue from members*~~)~~	X	X
~~Category 2 (e.g.~~ Revenue from providing goods or services*~~)~~	X	X
Total revenue~~Transfers~~ without binding arrangement	XX	XX
~~Category 3 (e.g.~~ Bequests and Donations*~~)~~	X	X
~~Category 4 (e.g.~~ Grants received*~~)~~	X	X
Other revenue without binding arrangements	X	X
Interest, dividends and other investment revenue	X	X
Total revenue	X	X
…	…	…

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 *Revenue*, issued in [Date], amended paragraphs 7,8, AG6 and AG28. An entity shall apply these amendments when it applies PBE IPSAS 47.

Application Guidance

Definition of an Insurance Contract (par 13.1) – Payments in Kind

…

AG6. Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either PBE IFRS 17 or ~~PBE IPSAS 9 *Revenue from Exchange Transactions*~~ PBE IPSAS 47 *Revenue*.

…

Examples of Insurance Contracts

…

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

…

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

…

Amendments to XRB A1 *Application of the Accounting Standards Framework*

The accounting standards table in Appendix C is amended. New text is underlined.

APPENDIX C

Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements to be applied by public benefit entities

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the accounting standards and authoritative notices that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs

Accounting Standards

…

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 47 *Revenue*

PBE IFRS 4 *Insurance Contracts* (superseded on adoption of PBE IFRS 17 for not-for-profit entities)

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 47 Revenue.

[to be drafted for the Board's February 2025 meeting]

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 47.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a "capital transfer"?

It depends. Public benefit entities receive resources through various types of transfer transactions, in the form of cash or another asset, and which may arise with or without a binding arrangement. An entity should consider whether there are any specifications related to the transfer of the physical asset to determine whether it meets the definition of a "capital transfer" in paragraph 4 of this Standard.

A transfer of a physical asset is a "capital transfer" if the entity received this transfer within a binding arrangement and is required by the binding arrangement to use that physical asset to acquire or construct another non-financial asset that will be controlled by the entity. A transfer of a physical asset which only has a requirement to be used or operated in a specific manner would not meet the definition of a "capital transfer"; rather, such a transfer of a physical asset would constitute a "transfer" as defined in paragraph 4. An entity should clearly consider the specific terms within the binding arrangement.

Section B: Identifying the Revenue Transaction

B.1 Identify Whether a Binding Arrangement Exists

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

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

It is important to correctly identify whether the revenue transaction arises from a binding arrangement. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its revenue transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 11–16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation,

which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

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

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Implicit or explicit consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Revenue Subject to Appropriations

How should an entity consider the impact of appropriations on its revenue transactions?

An appropriation is 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

[Guidance to be added at the February 2025 meeting]

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[9] million from a government body (the Government) to fund its employment programmes. The agreement requires funding to be spent on programmes with the goal of improving employment in the region. If the Entity incurs expenditures to improve employment in the region, it is able to enforce its right to receive funding from the Government. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programmes, nor how the Government will receive or verify information on how the funds were spent.

IE4. The Entity concludes that the funding agreement is not a binding arrangement in accordance with paragraph 4 of PBE IPSAS 47. Although the Entity has an enforceable right to resources from the Government if it incurs eligible expenditures, it does not have an enforceable obligation because the Government does not have the ability to enforce how the Entity uses funds in a specific way (e.g., specific programmes) or within a specific time period. The Government also has no realistic way to enforce the requirement to spend all of the funds. As a result, the entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue from a transaction without a binding arrangement.

Case B – Specified Time Period to Spend Funds

IE5. The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not change the Entity's conclusion that it has an enforceable right in the funding agreement, but does not have an enforceable obligation. This is because the Government is not able to confirm if and when the Entity spends the funds as stated in the agreement. As a result, this arrangement is not binding and the Entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue.

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

Case C – Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE6. The same facts as in Case B apply to Case C, except the agreement also specifies how the Entity is to report its spending to the Government, and that any misused or unused funds are to be returned to the Government. The Entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving employment in the region. The Entity concludes that it has both an enforceable right and an enforceable obligation. This is because the Government is able to confirm and enforce its requirement for the Entity to spend the funds on improving employment in the region within the five-year period. The Entity shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Example 2 – Research Grant Arising from a Binding Arrangement

IE7. A research lab (the Lab) enters into an arrangement and receives CU10 million from a government agency (the Government) to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing knowhow. The agreement contains specific and measurable milestones that must be met by the Lab; if these milestones are not met, the Lab is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for the Lab to transfer the findings or any resulting intellectual property to the Government. The Lab is also able to ensure that payment is received from the Government for research work planned or completed.

IE8. Based on these terms, the Lab has concluded that the agreement is a binding arrangement in accordance with paragraph 4 of PBE IPSAS 47, as it has an enforceable obligation to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to consideration for conducting this research project. The Lab shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Enforceability

IE9. Examples 3–7 illustrate the requirements in paragraphs AG14–AG25 of PBE IPSAS 47 on enforceability, which complement the requirements in paragraphs 11–14.

Example 3 – Enforceability by Legal Means

IE10. Pursuant to a ministerial directive, a 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

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 CU 15,000, 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 CU 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 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.

Commented [LV4]: Note to Board Members (Q1) Illustrative Example 24A has been included, following a recommendation from the October 2024 Board meeting. The example aims to demonstrate revenue deferral in scenarios where resources are received under binding arrangements for internal use. Also refer to Question 1 included below.

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 1 to Board members

Refer to question 1 in agenda item 4.3, paragraphs 7-8.

Does the Board AGREE with the proposed addition of illustrative example 24A, that demonstrates revenue deferral for receipt of resources for an entity's internal use?

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[10]	
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.

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

(c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million[11]
Revenue	
Cost of sales	CU80 million
Asset for trains to be returned	

IE156. Until the Government receives the cash payment from the Operator, interest revenue would be recognised in accordance with PBE IPSAS 41. In determining the effective interest rate in accordance with PBE IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

Example 27 – Withheld Payments on a Long-Term Binding Arrangement is not a Significant Financing Component

IE157. A government department (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).

[11] The receivable recognised would be measured in accordance with PBE IPSAS 41. This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognised at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

IE161. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognised as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Ministry accounts for the receivable in accordance with PBE IPSAS 41.

Case B – Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE162. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Ministry observes that the five percent rate of interest in the binding arrangement is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the Ministry and the foreign government at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five percent does not reflect the credit characteristics of the foreign government). This suggests that the cash price is less than CU100 million.

IE163. In accordance with paragraph 127 of PBE IPSAS 47, the Ministry determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 percent interest rate that reflects the credit characteristics of the foreign government. Consequently, the Ministry determines that the transaction consideration is CU84.83 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Ministry recognises revenue and a loan receivable for that amount. The Ministry accounts for the loan receivable in accordance with PBE IPSAS 41.

Example 29 – Advance Payment and Assessment of Discount Rate

IE164. The central government will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the central government plans to sell the surplus vehicles. To achieve this objective, the central government enters into a binding arrangement with a local government to provide the surplus vehicles in two years (i.e., the compliance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU5 million in two years when the local government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The local government elects to pay CU4 million when the binding arrangement is signed.

IE165. The central government concludes that the binding arrangement contains a significant financing component because of the length of time between when the local government pays for the vehicle and when the central government transfers the vehicles to the local government, as well as the prevailing interest rates in the market.

IE166. The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the central government determines that, in accordance with paragraph 127 of PBE IPSAS 47, the rate that should be used in adjusting the promised consideration is six percent, which is the central government's incremental borrowing rate.

IE167. The following journal entries illustrate how the central government would account for the significant financing component:

(a) Recognise a binding arrangement liability for the CU4 million payment received at inception of the binding arrangement:

Cash	CU4 million	
Binding arrangement liability		CU4 million

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the central government adjusts the promised amount of consideration (in accordance with paragraph 128 of PBE IPSAS 47) and builds up the binding arrangement liability by recognising interest on CU4 million at six percent for two years:

Interest expense	CU494,000[12]
Binding arrangement liability	CU494,000

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

Binding arrangement liability	CU4,494,000
Revenue	CU4,494,000

Example 30 – Advance Payment

IE168. A private sector telecommunications company (the Telecom) has set up cellular phone towers on government-owned properties. Under the arrangement, access to the towers can only be made by appropriately skilled telecommunications specialists. The Telecom enters into a binding arrangement with a government entity that provides specialist telecommunications services (the Government Entity) to provide maintenance and repair services for three years. The Telecom purchases this support service at the time of setting up the cellular phone towers. Consideration for the service is CU300,000, and the Telecom must pay for it upfront (i.e., a monthly payment option is not available).

IE169. To determine whether there is a significant financing component in the binding arrangement, the Government Entity considers the nature of the service being offered and the purpose of the payment terms. The Government Entity charges a single upfront amount, not with the primary purpose of obtaining financing from purchasers but, instead, to better manage its resources, taking into consideration the risks associated with providing the service. Specifically, if the Telecom could pay monthly, it may change to another provider of the specialist service, leaving the Government Entity with costs for which it cannot earn revenue.

IE170. In assessing the requirements in paragraph 125(c) of PBE IPSAS 47, the Government Entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the Government Entity. The Government Entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the Government Entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the Government Entity concludes that there is not a significant financing component.

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.

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

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

Product	Stand-alone value
	CU
Total	140

IE180. In addition, the Agency regularly provides Supplies B and C together for CU60.

Case A – Allocating a Discount to One or More Compliance Obligations

IE181. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C in exchange for CU100. The Agency will satisfy the compliance obligations for each of the supplies at different points in time.

IE182. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method (in accordance with paragraph AG107 of PBE IPSAS 47). However, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of PBE IPSAS 47.

IE183. If the Agency transfers control of Supplies B and C at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single compliance obligation. That is, the Agency could allocate CU60 of the transaction consideration to the single compliance obligation and recognise revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE184. If the binding arrangement requires the Agency to transfer control of Supplies B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Supply B (stand-alone value of CU55) and Supply C (stand-alone value of CU45) as follows:

Product	Allocated transaction consideration	
	CU	
Supply B	33	(CU55 ÷ CU100 total stand-alone value × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone value × CU60)
Total	60	

Case B – Residual Approach is Appropriate

IE185. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Supply D. Total consideration in the binding arrangement is CU130. The stand-alone value for Supply D is highly variable (see paragraph 139(c) of PBE IPSAS 47) because the Agency provides Supply D to different purchasers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone value of Supply D using the residual approach.

IE186. Before estimating the stand-alone value of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other compliance obligations in the binding arrangement in accordance with paragraphs AG108–AG109 of PBE IPSAS 47.

IE187. As in Case A, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of PBE IPSAS 47. Using the residual approach, the Agency estimates the stand-alone value of Supply D to be CU30 as follows:

Product	Stand-alone value	Method
	CU	
Supply A	40	Directly observable (see paragraph 137 of PBE IPSAS 47)
Supplies B and C	60	Directly observable with discount (see paragraph AG108 of PBE IPSAS 47)
Supply D	30	Residual approach (see paragraph 139(c) of PBE IPSAS 47)
Total	130	

IE188. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 133 of PBE IPSAS 47 and the requirements in paragraph 138 of PBE IPSAS 47.

Case C – Residual Approach is Inappropriate

IE189. The same facts as in Case B apply to Case C except the transaction consideration is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone value of CU5 for Supply D (CU105 transaction consideration less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its compliance obligation to transfer Supply D, because CU5 does not approximate the stand-alone value of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone value of Supply D using another suitable method. The Agency allocates the transaction consideration of CU105 to Supplies A, B, C and D using the relative stand-alone values of those products in accordance with paragraphs 133–140 of PBE IPSAS 47.

Example 34 – Allocation of Variable Consideration

IE190. A university (the University) enters into a binding arrangement with a pharmaceutical manufacturing company (the Company) for two intellectual property licenses for two drug formulations (Formulation X and Y), developed by the University's research lab. The University determines that the formulations represent two compliance obligations each satisfied at a point in time. The stand-alone values of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

Case A – Variable Consideration Allocated Entirely to One Compliance Obligation

IE191. The price stated in the binding arrangement for Formulation X is a fixed amount of CU800,000 and for Formulation Y, the consideration is three percent of the Company's future sales of the medication developed from Formulation Y. For purposes of allocation, the University estimates its sales-based royalties (i.e., the variable consideration) to be CU1,000,000, in accordance with paragraph 116 of PBE IPSAS 47.

IE192. To allocate the transaction consideration, the University considers the criteria in paragraph 142 of PBE IPSAS 47 and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Formulation Y. The University concludes that the criteria in paragraph 142 of PBE IPSAS 47 are met for the following reasons:

(a) The variable payment relates specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).

(b) Allocating the expected royalty amount of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 133 of PBE IPSAS 47. This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone value of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone value of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 143 of PBE IPSAS 47. This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating to Formulation Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 133 of PBE IPSAS 47.

IE193. The University transfers Formulation Y at the inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognise revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG180 of PBE IPSAS 47, the University recognises revenue for the sales-based royalty when those subsequent sales occur.

IE194. When Formulation X is transferred, the University recognises as revenue the CU800,000 allocated to Formulation X.

Case B – Variable Consideration Allocated on the Basis of Stand-Alone Values

IE195. The price stated in the binding arrangement for Formulation X is a fixed amount of CU300,000 and for Formulation Y the consideration is five percent of the Company's future sales of medication developed from Formulation Y. The University's estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500,000 in accordance with paragraph 116 of PBE IPSAS 47.

IE196. To allocate the transaction consideration, the University applies the criteria in paragraph 142 of PBE IPSAS 47 to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Formulation Y. In applying the criteria, the University concludes that even though the variable payments relate specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y), allocating the variable consideration entirely to Formulation Y would be inconsistent with the principle for allocating the transaction consideration. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction consideration on the basis of the stand-alone values of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 136–140 of PBE IPSAS 47.

IE197. The University allocates the transaction consideration of CU300,000 to Formulations X and Y on the basis of relative stand-alone values of CU800,000 and CU1,000,000, respectively. The University also allocates the consideration related to the sales-based royalty on a relative stand-alone value basis. However, in accordance with paragraph AG180 of PBE IPSAS 47, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognise revenue until the later of the following events: the subsequent sales occur or the compliance obligation is satisfied (or partially satisfied).

IE198. Formulation Y is transferred to the Company at the inception of the binding arrangement and Formulation X is transferred three months later. When Formulation Y is transferred, the University recognises as revenue the CU167,000 (CU1,000,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation Y. When Formulation X is transferred, the University recognises as revenue the CU133,000 (CU800,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation X.

IE199. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG180 of PBE IPSAS 47, the University recognises as revenue the CU111,000 (CU1,000,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied compliance obligation). The University recognises a binding arrangement liability for the CU89,000 (CU800,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation X. This is because, although the subsequent sale by the Company has occurred, the compliance obligation to which the royalty has been allocated is not satisfied until Formulation X is transferred three months later.

Multi-Party Arrangements and the Determination of Stand-Alone Value

IE200. Example 35 illustrates the application of paragraph AG29 of PBE IPSAS 47 on assessing binding arrangements which include the provision of goods or services to third-party beneficiaries and paragraph AG110 of PBE IPSAS 47 on the determination of the stand-alone value of these goods or services.

Example 35 – Provision of Vaccines to Third-Party Beneficiaries

Case A – Binding Arrangement Includes a Compliance Obligation to Transfer Goods or Services to Another Party

IE201. A health clinic (the Clinic) receives CU100,000 from the government to provide free vaccinations in the local community. The government requires the Clinic to provide 150 doses of vaccine A, which is a vaccine that the Clinic has previously provided for a stand-alone value of CU500 per dose. In addition, the Clinic is also required to provide 350 doses of vaccine B, a new vaccine with limited information regarding observable prices.

IE202. The Clinic concludes that this binding arrangement includes two compliance obligations to transfer two distinct goods to another party, specifically 150 doses of vaccine A and 350 doses of vaccine B. This is because the government, which is acting as the purchaser, is paying the Clinic to provide vaccination services to local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG29 of PBE IPSAS 47.

IE203. In determining the stand-alone value for each dose of the vaccines, the Clinic estimates that each dose of vaccine A has a stand-alone value of CU500, based on the historical stand-alone value for that vaccine. For vaccine B, the Clinic applies paragraph AG110 of PBE IPSAS 47 and estimates that the stand-alone value of each dose is CU100, based on the expected cost approach for the Clinic to acquire each vaccination, as well as the labour costs for the administration of vaccines.

IE204. Using the stand-alone value of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction consideration to the two vaccines:

Total Stand-Alone Value of All Compliance Obligations:

Vaccine A: CU500 stand-alone value × 150 doses = CU75,000

Vaccine B: CU100 stand-alone value (based on replacement cost + labour) × 350 doses = CU35,000

Total Stand-Alone Value: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Consideration of CU100,000 to the Two Vaccines:

Vaccine A: CU100,000 × CU75,000 ÷ CU110,000 = CU68,182 or CU454.55 per dose

Vaccine B: CU100,000 × CU35,000 ÷ CU110,000 = CU31,818 or CU90.91 per dose

IE205. Based on the above, the Clinic would recognise compliance obligations for Vaccine A (CU68,182) and Vaccine B (CU31,919) on receipt of the CU100,000 and then recognise revenue using the above allocated transaction consideration and measure its progress in satisfying its compliance obligations based on the number of vaccines A or B administered.

Case A1 – Transaction without a Binding Arrangement Includes Multiple Obligation to Transfer Goods or Services to Another Party

IE205.1. The same facts as in Case A apply to Case A1, except that entity determined that there is no binding arrangement. After considering paragraph 26 - 27, on receipt of the CU100,000, the entity would recognise a liability. The allocation of the transaction consideration to the two vaccines will be consistently applied to transactions without binding arrangement as demonstrated in paragraphs IE203–IE205 i.e. CU68,182 allocated to Vaccine A and CU31,818 allocated to Vaccine B. This aligns with Implementation Guidance paragraph C3 which indicates that the same transaction price allocation methods outlined for binding arrangements may also be applied to transactions without binding arrangements.

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

	CU
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 <u>not</u> present the Receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

Example 42 – Binding Arrangement Asset Recognised for the Entity's Performance

IE244. On 1 January 20X8, a government shared services agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a government department (the Department) in exchange for CU1,000,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000,000 is due only after the Agency has transferred both the software and configuration services to the Department. Consequently, the Agency does not have a right to consideration that is unconditional (a receivable) until the software is transferred to the Department and configured.

IE245. The Agency identifies the promises to transfer the software and complete the configuration as separate compliance obligations and allocates CU400,000 to the compliance obligation to transfer the software and CU600,000 to the compliance obligation to complete the configuration on the basis of their relative stand-alone values. The Agency recognises revenue for each respective compliance obligation when control of the product transfers to the Department.

IE246. The Agency satisfies the compliance obligation to transfer the software:

Binding Arrangement Asset	CU400,000	
Revenue		CU400,000

IE247. The Agency satisfies the compliance obligation to configure the software and to recognise the unconditional right to consideration:

Receivable	CU1,000,000	
Binding Arrangement Asset		CU400,000
Revenue		CU600,000

Example 43 – Receivable Recognised for the Entity's Performance

IE248. A hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on 1 January 20X9 to perform medical examinations for inmates for CU150 per examination. If Correctional Services requires more than 10,000 examinations to be performed in a calendar year, the binding arrangement indicates that the price per examination is retrospectively reduced to CU125 per product.

IE249. Consideration is due when the examinations are performed. Therefore, the Hospital has an unconditional right to consideration (i.e., a receivable) for CU150 per examination until the retrospective price reduction applies (i.e., after 10,000 examinations are completed).

IE250. In determining the transaction consideration, the Hospital concludes at the inception of the binding arrangement that Correctional Services will meet the 10,000-examination threshold and therefore estimates that the transaction consideration is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognises the following:

Receivable	CU15,000[13]	
Revenue		CU12,500[14]
Refund Liability (Binding Arrangement Liability)		CU2,500

IE251. The refund liability (see paragraph 118 of PBE IPSAS 47) represents a refund of CU25 per examination, which is expected to be provided to Correctional Services for the volume-based rebate (i.e., the difference between the CU150 price stated in the binding arrangement that the Hospital has an unconditional right to receive and the CU125 estimated transaction consideration).

Disclosure

IE252. Examples 44, 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~~s~~ 44~~–45~~);

(b) [Not used]~~Paragraphs 179–180 of PBE IPSAS 47 on the disaggregation of revenue disclosure (Example 47)~~;

(c) Paragraphs 185–187 of PBE IPSAS 47 for the disclosure of transaction consideration allocated to the remaining compliance obligations (Examples 48–49);

(d) Paragraph 120 of PBE IPSAS 47 on constraining estimates of variable consideration (Example 48);

(e) Paragraph AG90 of PBE IPSAS 47 on methods for measuring progress towards complete satisfaction of a compliance obligation (Example 48); and

(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).

Commented [LV5]: Note to Board Members
The Disclosure Illustrative examples have been adjusted to remove Illustrative Examples 45 and 47 based on the recommendations from the October 2024 Board meeting.

[13] CU150 per examinations × 100 examinations

[14] CU125 transaction consideration per examinations × 100 examinations

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]~~Disclosures Made in the Financial Statements of Government A~~

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]~~Disaggregation of Revenue—Quantitative Disclosure~~

Example 48 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligations

IE260. On 30 June 20X7, a centralised training agency (the Agency) enters into three binding arrangements (Binding Arrangements A, B and C) with a government department (the Department) to provide training services. Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 185–187 of PBE IPSAS 47 in determining the information in each binding arrangement to be included in the disclosure of the transaction consideration allocated to the remaining compliance obligations at 31 December 20X7.

Binding Arrangement A

IE261. Training services are to be provided over the next two years, typically at least once per month. For services provided, the Department pays an hourly rate of CU25.

IE262. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the resource provider in the amount that corresponds directly with the value of the Agency's performance completed to date in accordance with paragraph AG90 of PBE IPSAS 47. Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 186(b) of PBE IPSAS 47.

Binding Arrangement B

IE263. Training and onboarding services are to be provided as and when needed with a maximum of four visits per month over the next two years. The Department pays a fixed price of CU400 per month for both services. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE264. The Agency discloses the amount of the transaction consideration that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognise the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	**20X9**	**Total**
	CU	**CU**	**CU**
Revenue expected to be recognised on this binding arrangement as of 31 December 20X7	4,800[15]	2,400[16]	7,200

Binding Arrangement C

IE265. Training services are to be provided as and when needed over the next two years. The Department pays a fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the Department's employees (i.e., a performance bonus). The Agency estimates that it will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 120 of PBE IPSAS 47, the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE266. The Agency discloses the amount of the transaction consideration that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognise the amount as revenue. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

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15 CU4,800 = CU400 × 12 months.

16 CU2,400 = CU400 × 6 months

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognised on this binding arrangement as of 31 December 20X7	1,575[17]	788[18]	2,363

IE267. In addition, in accordance with paragraph 187 of PBE IPSAS 47, the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction consideration. That part of the performance bonus was excluded from the transaction consideration in accordance with the requirements for constraining estimates of variable consideration in paragraphs 119–121.

Example 49 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligation Qualitative Disclosure

IE268. On 1 January 20X2, a government department (the Department) 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.

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

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

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.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	22 November 2024
To:	NZASB Members
From:	Carly Berry
Subject:	**ED PBE IPSAS 48 *Transfer Expenses***

Introduction and purpose

1. The purpose of this memo is to seek the Board's agreement with our recommendations relating to the following topics:

   (a) Disclosure requirements

   (b) Illustrative examples

   These recommendations address the Board's feedback on the draft ED PBE IPSAS 48 at the October 2024 meeting.

2. This memo should be read in conjunction with agenda item 3.6, which contains a marked-up version of the ED. This draft ED includes the Board questions in turquoise boxes within the relevant sections. Further drafting adjustments are highlighted in blue within the draft ED. A summary of outcomes from previous Board meetings that are relevant to the draft ED can be found in Appendix 1.

3. We are not seeking approval of the draft ED at this meeting – we plan to do so at the February/April 2025 meeting.

Recommendations

4. We recommend that the Board:

   (a) AGREES with our recommended approach to the disclosure requirements in paragraphs 54 and 60 of the draft ED; and

   (b) AGREES with the recommended amendments to Illustrative Example 1 and Illustrative Example 7, to account for the not-for-profit context.

Structure of this memo

5. This memo includes the following sections.

   (a) Disclosure requirements in paragraphs 54 and 60

   (b) Illustrative examples

   (c) Appendix 1: Summary of outcomes from previous Board meetings

   (d) Appendix 2: Paragraphs 45-47 in PBE IPSAS 1

Disclosure requirements in paragraphs 54 and 60 (pages 13–14 of the draft ED)

6. IPSAS 48 includes the following paragraphs:

   (a) Paragraph 54 – an entity shall provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to enable users to understand how the entity's resources are spent on its programmes, activities, and services.

   (b) Paragraph 60 –an entity shall 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.

7. The draft ED presented to the Board in October 2024 included proposed amendments to these IPSAS 48 paragraphs. These amendments permitted 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.

8. The rationale for these proposed amendments was that, in our view, application of paragraphs 54 and 60 to social benefit transactions could result in additional disclosure in the NZ Government financial statements which would not necessarily add to the usefulness of the financial statements. This would be the case because users already have access to the information from other sources.[1] Including the information in the financial statements would add to their length, which could increase to the point where it results in "clutter".

9. At the October 2024 meeting, the Board discussed whether permitting the use of cross-referencing is appropriate. Board members provided the following key views and observations:

   (a) The financial statements should be complete – if there is information that needs to be disclosed because it is material to that entity, then it should be disclosed in the financial statements.

   (b) It could be challenging to present the information required by paragraphs 54 and 60 in a meaningful way, so that the volume of information does not result in clutter.

   (c) The potential for disclosure overload, specifically in the consolidated NZ Government financial statements, was noted. Therefore, an idea was put forth to provide an exemption to the Crown on these disclosure requirements. However, such an exemption would mean that there would be no disclosure of social benefit transaction information in the public sector. This is because individual agencies (such as the Ministry of Social Development) include benefit information in schedules to the financial statements[2] – not in the financial statements themselves – which means that only the consolidated NZ Government financial statements would contain this sort of information.

10. Ultimately, the Board disagreed with the recommended amendments to paragraphs 54 and 60 and instead requested staff to consider ways to avoid disclosure overload in the financial

[1] For example, much of this information is available on the Ministry of Social Development's website.
[2] Because these transactions constitute non-departmental activity for the agency.

statements <u>without</u> the use of cross-referencing. Such an approach requires us to consider the extent of the guidance on materiality within the draft ED.

References to materiality in the draft ED

11. Paragraphs 51 and 52 in the draft ED state the following:

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

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

12. Appendix 2 includes the full text of PBE IPSAS 1.45–47. We have considered whether these paragraphs should be incorporated into the draft ED. We have decided not to recommend doing so – in our view, paragraphs 51 and 52 of the draft ED contain the key points that entities should consider in making their materiality judgments. The reference to the more detailed paragraphs in PBE IPSAS 1 is sufficient and avoids lengthening the disclosure section of the draft ED unnecessarily.

13. The location of paragraphs 51 and 52 is appropriate – both paragraphs follow directly after the disclosure objective in paragraph 50 and precede the specific disclosure requirements in paragraphs 53–61.

Conclusion and recommendation

14. We consider that paragraphs 51 and 52 provide sufficient guidance within the draft ED to assist entities in making materiality judgements on the nature and extent of disclosures required under paragraphs 54 and 60. Therefore, we recommend that the content of paragraphs 54 and 60 be substantively re-aligned to the equivalent paragraphs in IPSAS 48. This will involve removing the proposed amendments to these paragraphs that were presented to the Board in October.

15. In addition to the recommendation in paragraph 14, we also recommend the following drafting adjustments to the disclosure section of the draft ED:

    (a) *Adding the word "material" to paragraphs 59 and 60* – to emphasise the need to make a materiality judgement when applying these paragraphs.

    (b) *Replacing 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. Using a defined term reduces potential confusion when applying the disclosure requirement and emphasises the need to make a materiality judgement when applying these paragraphs.

Similarly, we have replaced the word "insignificant" with the word "immaterial" in paragraph 52. Such a replacement allows for closer alignment with the wording in PBE IPSAS 1.45–47.

16. Where there is the potential for inconsistency across the PBE suite of standards (and, where relevant, with for-profit standards) we have not made the replacements referred to in paragraph 15(b). For example, we have left references to "significant payment terms" (paragraphs 59 and 60) and "significant judgements" (paragraphs 50 and 61) unchanged. Such terms appear in other PBE Standards as well as in the for-profit suite of standards and we do not intend to imply that the meaning of these terms in the draft ED differs from the meaning in those other standards.

17. Question 1 on page 13 in agenda item 3.6 asks whether the Board agrees with this recommendation.

18. As part of our outreach activities during the ED consultation period, we intend to discuss the proposed drafting of paragraphs 54 and 60 with NZ Treasury representatives, to obtain their views on whether there is sufficient guidance in the ED to assist them in applying these paragraphs to social benefit transactions.

Illustrative examples (pages 35–45 of the draft ED)

19. At the October 2024 meeting, we asked if the Board agreed with the drafting of the illustrative examples in the draft ED (which were substantively aligned with those in IPSAS 48). The Board suggested adjusting a few examples to make them not-for-profit focused, as none of the eleven examples in the draft ED specifically mentioned a not-for-profit entity.

20. To address this feedback, we propose to amend two illustrative examples in the draft ED, as follows:

    (a) Example 1 – change the transfer provider from "international organisation" to "charitable organisation", and the third-party beneficiary from "local government" to "not-for-profit" entity.

    (b) Example 7 – change the transfer provider from "city council" to "charitable organisation" and amend the scenario to make it appropriate for a not-for-profit context.

21. Question 2 on page 35 in agenda item 3.6 asks whether the Board agrees with our recommended amendments.

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

Meeting	Outcome	Comment / draft ED reference
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:	
	• 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

Meeting	Outcome	Comment / draft ED reference
	• 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:	
	○ removing the reference to IPSAS 24 *Presentation of Budget Information in Financial Statements* from the IPSAS 47 and IPSAS 48 Implementation Guidance.	IG B.3
	○ rewording the definition of appropriations as – an authorisation granted by a legislative body (i.e. the enabling authority) to allocate funds incur expenses or capital expenditure for the purpose specified by the legislature or similar authority – i.e. removing the strike through words and adding the underlined words.	IG B.3
	○ considering if there are other changes required to the guidance on appropriations in the IPSAS 47 and IPSAS 48 Bases for Conclusions, Implementation Guidance and Illustrative Examples to align with the New Zealand context.	Illustrative Example 4

Meeting	Outcome	Comment / draft ED reference
	• 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.
	• staff's assessment of whether a transfer right asset meets the definition of an asset in the Conceptual Framework.	No action required.
August 2023	The Board provided feedback on the draft project plans for developing PBE Standards based on IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses* and on the approach to drafting the PBE EDs.	Proceeded with the project plan.
June 2023	The Board agreed to commence projects to develop new PBE Standards on revenue and transfer expenses, using IPSAS 47 and IPSAS 48 as respective starting points.	Commenced with the development of new PBE Standards.

Appendix 2: Paragraphs 45–47 in PBE IPSAS 1

45. Each material class of similar items shall be presented separately in the financial report. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.

46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of comprehensive revenue and expense, statement of changes in net assets/equity, and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

46A. When applying this and other PBE Standards an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial report, which includes the notes. An entity shall not reduce the understandability of its financial report by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

[Paragraphs 46A.1 and 46A.2 are not reproduced here, as they are relevant to service performance information only]

47. Some PBE Standards specify information that is required to be included in the financial statements, or elsewhere in the financial report, which include the notes. An entity need not provide a specific disclosure required by a PBE Standard if the information resulting from that disclosure is not material. This is the case even if the PBE Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in PBE Standards is insufficient to enable users of financial reports to understand the impact of particular transactions, other events and conditions on the entity's financial position, financial performance, and where appropriate, service performance.

Proposed new accounting standard for non-exchange expenses

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 October meeting are highlighted in **blue**.

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

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

[XX] 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 2028], meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of this Standard to an earlier accounting period is permitted for accounting periods that end after the Standard takes effect – refer to paragraphs 62–62.3 of this Standard.

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

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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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PBE IPSAS 48 TRANSFER EXPENSES

CONTENTS

	Paragraph
Objective	1–2
Scope	2.1–5
Definitions	6–7
Identifying the Transfer Expense Transaction	8–9
Binding Arrangements and Enforceability	10–17
Transfer Expenses from Transactions without Binding Arrangements	18–20
Recognition	18
Measurement	19–20
Transfer Expenses from Transactions with Binding Arrangements	21–43
Identifying Transfer Rights	21
Recognition of Transfer Expenses	22–29
Measurement	30–43
Presentation	44–49
Disclosure	50–61
Commencement and Application	62–64
Transition	64

Appendix A: Application Guidance

Appendix B: Amendments to Other PBE Standards

Basis for Conclusions

Implementation Guidance

Illustrative Examples

Comparison with IPSAS 48

The following is available on the XRB website as additional material

IPSASB Basis for Conclusions

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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.

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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

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[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

DRAFT

(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

DRAFT

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

Question 1 to Board members

Refer to paragraphs 6–18 in agenda item 3.5. Do Board members agree:

(a) to substantively re-align the content of paragraphs 54 and 60 with the equivalent paragraphs in IPSAS 48; and

(b) with the drafting adjustments proposed in paragraph 15 in agenda item 3.5?

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

    (a) Transfer expenses and related balances (see paragraphs 53–58);

    (b) Transfer arrangements (see paragraphs 59–60); and

    (c) The significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).

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

52. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of ~~insignificant~~ 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 ~~significant~~ 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.

    ~~The above information shall be provided either in the financial statements or incorporated by cross-reference from the financial statements to some other statement or report that is available to users of the financial statements on the same terms as the financial statements and at the same time. For example, an entity may reference to the Benefit Fact Sheets published by the Ministry of Social Development when relevant to its non-binding arrangements.~~

*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.

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.

    ~~In addition, the above information shall be provided either in the financial statements or incorporated by cross-reference from the financial statements to some other statement or report that is available to users of the financial statements on the same terms as the financial statements and at the same time. For example, an entity may reference to the Benefit Fact Sheets published by the Ministry of Social Development when relevant to its non-binding arrangements.~~

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].

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

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

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

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

62.3 In paragraph 62.2:

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

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

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

(b) For which the early adopter:

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

(ii) Applies PBE IPSAS 47 *Revenue* at the same time; and

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

Mandatory date means 1 January 2028.

63. [Not used]

Transition

64. **An entity shall apply this Standard using one of the following two methods:**

(a) Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or

(b) To each prior reporting period presented in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, as if this Standard had always been applied.

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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.

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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.

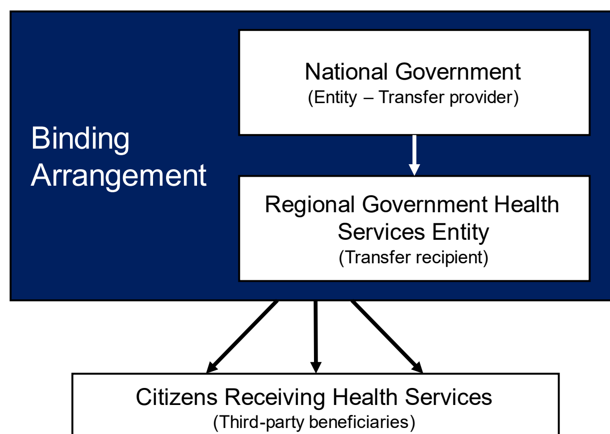
Parties in a Binding Arrangement

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

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

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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.

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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.

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~~

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~~of the grant, but accounted for the full CU700 as an expense.~~ Upon the transfer of funds, COA recognised a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognises CU350 of the transfer right asset and recognises the amount as a transfer expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party or an enforceable right to have an external party deliver training courses. ~~The resulting entity does not recognise a liability for the CU350, but instead recognises this amount in net assets/equity.~~

…

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

IE265. In this example, ~~AE calculates a gain of CU600. The gain is calculated as the liability assumed that is derecognised because, as a result of the acquisition,~~ AE eliminates the liability of CU600 against the transfer right asset of CU600, as there is no longer an obligation owed to a third party or the enforceable right to have an external party deliver training courses.

IE266. ~~In this example, no corresponding asset had been recognised by AE; if AE had previously recognised a corresponding asset, this would be derecognised at the acquisition date, and the derecognised amount would be included in the calculation of the gain or loss.~~[Deleted by IPSASB]

…

XRB A1 *Application of the Accounting Standards Framework*

The accounting standards table in Appendix C is amended. New text is underlined.

APPENDIX C

Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements to be applied by public benefit entities

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the accounting standards and authoritative notices that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs.

Accounting standards

(…)

PBE IPSAS 41	*Financial Instruments*
PBE IPSAS 48	*Transfer Expenses*
PBE IFRS 4	*Insurance Contracts* (superseded on adoption of PBE IFRS 17 for not-for-profit entities)

(…)

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Basis for Conclusions

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

[to be drafted for the Board's February 2025 meeting]

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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

resources, and consequently the entity has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the completion of an appropriation process.

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

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

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

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

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

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

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

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

Section C: Transfer Expenses from Transactions without Binding Arrangements

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

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

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

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

Section D: Transfer Expenses from Transactions with Binding Arrangements

D.1 Identifying Transfer Rights in a Binding Arrangement

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

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within

a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional judgement as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

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

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

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

(a) The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;

(b) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and

(c) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

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

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

E.1 Derecognition of a Transfer Right Asset

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

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

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

(b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and

(c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations 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

Question 2 to Board members

Refer to paragraphs 19–21 in agenda item 3.5. Does the Board agree with the drafting of Example 1 (paragraphs IE3–IE7) and Example 7 (paragraphs IE39–IE41), to account for the not-for-profit context?

Note: for ease of reading, we have not highlighted the amended wording in these 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.[6] Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A – Vehicle is Provided to the 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.

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

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IE10. The binding arrangement does not give rise to a transfer expense of the central government, as the central government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of PBE IPSAS 48. The central government applies PBE IPSAS 31 *Intangible Assets*, in accounting for the binding arrangement.

Case B—University Controls Research

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

IE12. The binding arrangement gives rise to a transfer expense of the central government, as the central government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The central government (the transfer provider) applies paragraphs 21–43 of PBE IPSAS 48 in accounting for the transaction, as it arises from a binding arrangement.

Binding Arrangements and Enforceability

IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10–16 of PBE IPSAS 48.

Example 3: Identifying Whether a Binding Arrangement Exists

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

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

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

IE16. The central government has a financial year end of 30 June. On 15 September 20X1, the central government (the transfer provider) enters into an arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution. CU10 million is to be transferred in the 20X2 financial year, and the remaining CU5 million to be transferred in the 20X3 financial year. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.

IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million on 31 March 20X2 and the central government immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in the 20X2 financial year but will be considered in the following year as part of the appropriation process for the 20X3 financial year.

IE18. In determining the effect of the appropriation on the arrangement, the central government considers substance over form, in accordance with paragraphs 10–16 and AG11–AG25.

Case A – Requirement to Complete the Appropriation Process has Substance

IE19. The reduction in air pollution is a local government responsibility, and there is no authorising legislation that requires the central government to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.

IE20. The central government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in the 20X2 financial year and CU5 million in the 20X3 financial year) until the appropriation process is completed. Consequently, in the 20X2 financial year, the central government only recognises an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations up to 31 March 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the central government would instead recognise a transfer right asset of CU10 million.

IE21. On 31 October 20X2, parliament completes the appropriation process for the remaining CU5 million. At this date, the central government applies paragraphs 21–26 of PBE IPSAS 48 to assess the accounting implications for the remaining CU5 million.

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

IE22. In this scenario, the reduction of air pollution is a priority of both the central and local governments, and there is legislation in place which requires the central government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the central government is required by law to complete the appropriation for the CU15 million transfer.

IE23. The central government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the central government is required by law to complete the appropriation for the CU15 million transfer. Upon execution of the binding arrangement, the central government applies paragraphs 21–26 of PBE IPSAS 48 in determining when to recognise a transfer right asset or a transfer expense.

Transfer Expenses from Transactions with Binding Arrangements

IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of PBE IPSAS 48.

Example 5: Determining Whether Goods or Services are Distinct

Case A – Goods or Services are not Distinct

IE25. A local government enters into a binding arrangement with Entity A, for Entity A to build a new community centre. Under the terms of the binding arrangement, Entity A has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

IE26. To determine if the binding arrangement has more than one transfer right, the local government applies paragraphs 21, AG31–AG34 and considers the factors discussed in Implementation Guidance D.1 of PBE IPSAS 48 to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

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

IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of PBE IPSAS 48, the local government aggregates these related rights into a single transfer right.

Case B – Goods or Services are Distinct

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

(a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programmes);

(b) Website-related services;

(c) Unspecified software updates for security purposes; and

(d) Technical support (online and telephone) to the University's faculty and staff.

IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.

IE31. The Local Government assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of PBE IPSAS 48. In making this assessment, the Local Government applies the guidance in paragraphs AG31–AG34 of PBE IPSAS 48.

IE32. The Local Government observes that:

(a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;

(b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the licence and services can be separately enforced; and

(c) The goods or services are neither highly interdependent nor highly interrelated. The Local Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.

IE33. The Local Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralise the University's purchasing process and potentially negotiate a discount by bundling the licence with services.

IE34. On the basis of the above assessment, the Local Government identifies four transfer rights in the binding arrangement for the following goods or services:

(a) The productivity software;

(b) Website-related services;

(c) Security updates; and

(d) Technical support.

Recognition of Transfer Expenses

IE35. Examples 6–8 illustrate the requirements in paragraphs 22–25 on the overall accounting model for transfer expenses from transactions with binding arrangements:

(a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;

(b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and

(c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of PBE IPSAS 48.

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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:[7]

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.

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[7] 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'.

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 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.

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.

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IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.

IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognises a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.

IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognised and expensed throughout the construction period.

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

IE74. In this example, the binding arrangement states that:

(a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from PBE IPSAS 48, Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.

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

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

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

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

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

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.

IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will recognise the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.

IE80. The additional CU5 million penalty is not recognised by Entity P because its receipt is contingent on Entity R ceasing to operate the building as a public library. Such a contingent asset is not recognised in accordance with PBE IPSAS 19.

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

IE81. The following scenario is independent from Cases A–C and illustrates the accounting for a transfer without a capital transfer component.

IE82. In this scenario:

(a) Entity R already owns the building;

(b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidise the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalisation of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity R that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a public library over a 10-year period. Upon initial payment, Entity P recognises the CU10 million as a transfer right asset.

IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognises the transfer right asset evenly over the 10-year period and recognises a transfer expense of CU1 million per year.

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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 polies, election promises or statements of intent, drawing on the principles of PBE IPSAS 19.

(c) PBE IPSAS 48 includes RDR concessions for public benefit entities in Tier 2.

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

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

AGENDA ITEM NO.	4.1
Date:	21 November 2023
To:	NZASB and NZAuASB Members
From:	Jamie Cattell and Lisa Thomas
Subject:	Update on Reporting and Assurance of Service Performance Information

Objective

The purpose of this agenda item is for the NZASB and NZAuASB (the Boards) to **PROVIDE FEEDBACK** on the proposed joint project plan and timetable to address the accounting and assurance issues identified relating to service performance reporting.

Recommendations

1. The Boards are asked to:
   (a) **PROVIDE FEEDBACK** the project plan and timetable to address the reporting and assurance issues identified for service performance information.
   (b) **CONSIDER** if there are other elements around the reporting and assurance for service performance information that should be considered further as part of this project.

Background

2. The XRB has been hearing frustrations (indirectly) relating to the reporting and assurance of service performance information in the Not-For-Profit (NFP) sector for Tier 1 and Tier 2 entities.
3. In an effort to be agile and respond to the frustration, several workshops were held aimed at preparers, funders and assurance practitioners and one on one discussions with those unable to attend the workshops to understand these concerns directly.
4. The XRB Board, the NZAuASB and the NZASB have received updates to reflect on the feedback from these workshops, and identified key themes, root causes and possible solutions. The three main root causes identified and presented to the Boards in October 2024 were:
   (a) *Clarity:* There is a need to improve the clarity of the Statement of Service Performance requirements and concepts;
   (b) *Capability and Capacity:* NFP entities currently lack capability and capacity to report on service performance information effectively; and
   (c) *Verification:* There have been significant queries over the cost and value of the audit of service performance information.
5. XRB staff also presented these findings to the XRB Board in September 2024. The XRB Board agreed that priority action is needed to respond to these issues, with a focus on both standard setting, and guidance, to improve preparers and assurance practitioners understanding and expectations around reporting high-quality trusted service performance information.

XRB Actions

6. The accounting and assurance teams have considered the feedback and have developed project plans to respond to the feedback and issues noted.

7. The key challenges we heard from this feedback include:

   (a) *Lack of Clarity and Guidance*: The principles-based approach in PBE FRS 48 while allowing for flexibility and judgement, has led to unclear concepts and confusion among entities, especially NFPs, about how to effectively report service performance information.

   (b) *Differences in Accountability and Legislative Requirements*: Public sector entities and NFPs operate under different legislative frameworks and accountability mechanisms, affecting how they approach service performance reporting.

   (c) *Capacity and Capability Constraints*: Many entities, particularly smaller NFPs, face resource limitations and lack the systems and expertise to implement the standard effectively.

   (d) *Assurance challenges*: Assurance practitioners face difficulties assessing compliance with a principles-based standard that lacks specific criteria and obtaining evidence to verify performance measures.

   (e) *Need for Sector-Specific Guidance*: The diversity between the public sector and NFP sector necessitates tailored guidance to address their unique needs

   (f) *Lack of understanding on impact reporting*: Entities lack a clear understanding of how current service performance reporting fits into the broader context of evolving reporting requirements, including the progression towards more advanced outcome and impact reporting.

   (g) *Ambiguity about the Purpose of SSPs*: There is confusion among entities regarding the primary objectives of Statements of Service Performance (SSPs), leading to inconsistent approaches in reporting and difficulties in meeting user needs effectively.

   (h) *Subjectivity of Key Terms*: The absence of clear definitions for critical terms such as "outputs," "outcomes," and "impacts" leads to varied interpretations and inconsistent reporting across entities.

   (i) *Necessity for Collaboration and Education*: There is a pressing need for partnerships to support ongoing education and training in service performance information reporting, particularly for entities with limited resources or experience in this area.

8. As part of developing the project plan, the following three workstreams were identified for further consideration and action:

   (a) Amendments to the reporting standard PBE FRS 48 *Service Performance Reporting* to clarify the intended principles around service performance reporting;

   (b) Development of guidance and education materials for preparers and assurance practitioners around the key principles of service performance reporting – tailored for public sector reporting and NFP reporting; and

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

9. At this stage, we have not identified the need for amendments to the auditing standard specific to service performance information (NZ AS 1 (Revised) and the upcoming review standard for service performance information (NZ SRE 1) planned for approval by the NZAuASB in December 2024).

10. The NZAuASB has actively been working on assurance matters related to service performance information over the past years. The auditing standard for service performance information NZ AS 1 was revised in July 2023 following significant work between the XRB and Office of the Auditor-General (OAG). The revised NZ AS 1 will only be mandatory from reporting periods ending December 2024. Since then, the NZAuASB has continued to work on assurance matters related to service performance information. The XRB is currently consulting on a proposed standard for auditing less complex entities, with a New Zealand specific chapter drafted to deal with service performance information. The NZAuASB will also be asked to approve a review standard on service performance information at its December meeting. For this reason, the project plans do not currently explore amending the assurance standards, rather the focus is on supporting adoption and implementation of new or revised standards.

11. We highlight that language matters and that the accounting and assurance standards need to talk to each other. This was a key message we heard in revising NZ AS 1. We are aware that any changes in the language used in the accounting standards may have an impact on the assurance standards. The accounting and assurance teams will work closely together to ensure that any language changes to the reporting standards do not have unintended impacts on the assurance standards. NZ AS 1 (Revised) is designed to be framework neutral. It is applied to audits of entities across Tiers 1 and 2 (that use PBE FRS 48) and Tier 3 and Tier 4 reporting entities. The impact of any change in language or terminology in PBE FRS 48 may need to be considered across all other XRB standards (including Tier 3 and Tier 4 and the three assurance standards) to ensure these remain inter-operable.

12. The effective resolution of these issues requires a collective response from both the accounting and assurance teams and both Boards to ensure the terminology and language across the standards are consistent and not misinterpreted. Therefore, a joint project plan and timetable has been developed (as outlined below).

13. We would appreciate forming a joint sub-committee, with at least two members of both the NZASB and NZAuASB, to provide support to staff as required, by reviewing and providing feedback on the standard and guidance as it develops.

<u>Changes to the reporting standard</u>

14. The accounting team's approach to enhancing PBE FRS 48 is structured around four main pillars, each addressing specific challenges identified in the implementation of the standard:

    (a) ***Content and definition clarification:*** We intend to propose amendments to clarify the scope and purpose of service performance reporting, ensuring that entities understand the fundamental objectives of the Statement of Service Performance (SSP) and the expectations around the nature of information it should contain. This includes:

    - Modifying the objective and scope of the standard to emphasise that the SSP is primarily an accountability document focused on reporting performance measures that faithfully represent an entity's outputs and closely linked outcomes within a reporting period.
    - Reintroducing key definitions that were removed from the final Standard, such as "output" and "outcome" (and potentially "impact") to provide clearer guidance on the purpose and scope of PBE FRS 48 while maintaining flexibility.
    - Adding authoritative guidance on identifying primary users and their information needs to help entities select appropriate and meaningful performance measures and communicate these in an engaging manner which aids in users' decision-making.

(b) ***Conceptual Framework alignment:*** To improve the consistency and understandability of the nature of service performance information which should be reported in general-purpose reporting, we propose to align the verifiability considerations required under PBE FRS 48 to the existing *Conceptual Framework*.

This will help ensure entities think consistently across their financial and non-financial reporting when considering the information which should be reported, the expectations of users and the evidence required to support assertions.

(c) ***Introducing a Basis of Preparation:*** To address verification challenges and support more consistent application, new requirements for a basis of preparation of service performance information will be proposed.

The proposed basis of preparation will function similar to accounting policies in financial statements, providing a structured approach to documenting how entities identify user needs, select performance measures, and assess that their performance measures are an accurate reflection of their service performance (consideration of how an "appropriate and meaningful" mix of performance measures are determined).

Enhanced disclosure requirements will be proposed to explain:

- The process used to identify and select relevant performance measures;
- The measurement approach applied to each relevant performance measure;
- The rationale for changes in selection and measurement approach; and
- Any key assumptions or limitations or judgements inherent in performance measurement.

We will also explore whether changes are needed to the "appropriate and meaningful" concept to ensure that preparers consider how the reported performance measures link through to organisational strategy and intended outcomes, consider the principles within the Conceptual Framework and consider that individual performance measures, and the overall collection of performance measures provide an accurate representation of performance in the period.

(d) ***Structural changes:*** We have analysed the existing principles of PBE FRS 48 from a public sector lens and a NFP lens and have identified that the service performance reporting principles included within the standard are appropriate for both sectors, as the principles were designed to ensure high quality of service performance irrespective of the nature of the entity.

However, recognising that there are significant differences between public sector and NFPs, sector-specific guidance will be proposed to the standard (through authoritative appendices). This guidance will address the different environment faced by each sector, such as legislative differences and the development of performance frameworks.

For public sector entities, the guidance will focus on integrating service performance information with existing legislative requirements and government reporting frameworks. For NFP entities, the focus will be on framework development, linking outputs to outcomes and documenting judgments and assumptions.

15. The amendments proposed to PBE FRS 48 will not be treated or communicated as a Post-Implementation Review (PIR). This project is to propose targeted amendments in response to the feedback received about the practical difficulties in applying and assuring service performance information.

16. If amendments are made to the standard at this time, then a formal PIR will occur in due course, after there has been sufficient time for the updated standard to be implemented by preparers.

This is considered the most efficient way to respond to the immediate feedback and allow for a full PIR to occur, once the standard has been operating as intended for a period of time.

Guidance and Education material for preparers and practitioners

17. To support preparers and assurance practitioners in applying and understanding the standard, non-authoritative implementation guidance is planned. This guidance will provide more practical examples and seek to encourage a consistent understanding of key concepts across preparers and assurance practitioners, so that reporting and assurance expectations are harmonised.

18. Guidance is planned to cover the following areas, but is planned to be broken down into shorter documents which will be more understandable to users:

    (a) *What a good SSP as an accountability document looks like* – This could include "one pager" practical examples of performance measures and snapshots to assist entities in PBE subsectors (for example: health or education) to guide what types of measures to report, potential assurance approaches to different types of measures, with the aim or developing effective performance reporting and assurance practices, in light of the different considerations across the public and NFP sectors;.

    (b) *How outputs closely related to outcomes and how each of those may be used to inform broader outcome and impact reporting over time* – This will cover topics like focusing SSP reporting on outputs and closely-linked outcomes and practical examples of how multiple output measures over time can be used to proxy outcomes and impacts over time and how this may be communicated through an entity's reporting outside of the SSP.

    (c) *Practical things to consider when thinking about high quality service performance information reporting* – This could include topics such as establishing internal controls around service performance measurement and reporting, understanding preparer and assurance practitioner responsibilities, ensuring finance staff have sufficient resources and time, thinking about strategy and user needs through the reporting period and not just at year-end and engaging with auditors early around selected performance measures and measurement techniques.

    (d) *Guidance on key principles when considering how to determine which performance measures to report and assessing an appropriate and meaningful mix of measures* – This could include topics such as identifying and considering user needs, selecting appropriate measures, and balancing quantitative and qualitative information when communicating service performance information.

19. Across the guidance, we will also look to reinforce key messages and principles around considering how the reported information is verifiable and engaging to users, how entities should consider the causality of their actions, attribution of their responsibilities and the degree of separation and external factors which impact on their desired impacts.

20. The guidance is expected to be particularly helpful to entities and practitioners in the NFP sector who face greater difficulties in preparing and assuring service performance information and will be focus-tested with NFP entities to ensure it is suitable for their needs as part of its development.

21. While we plan to produce public sector specific guidance, we intend to do so after the NFP specific guidance. As public sector entities have more established service performance reporting practices, they have less need for additional guidance. Consequently, we have prioritised creating guidance specific for NFP at this stage.

Guidance for assurance practitioners

22. To reinforce the principles contained within the current and upcoming assurance standards and to deal with some of the challenges raised in recent workshops the development of guidance is planned, focussed on the practitioner on obtaining evidence.

23. Identified topics for guidance include:

    (a) *How do you verify SPI, particularly qualitative measures* – This guidance will focus on what sources and types of evidence can be used, and how they may differ to a financial statement audit. Assurance practitioners will be encouraged to consider multiple sources of evidence, and how to assess the relevance and reliability of the evidence. Possible assurance approaches to qualitative measures will be explored, as well as the impact on an engagement when the assurance practitioner is unable to obtain evidence or if there are privacy issues with the data.

    (b) *Internal controls* – This guidance will discuss how controls over service performance information may be limited or simple compared to financial controls and the impact this may have on the engagement. Implications on the assurance engagement will also be explored when there are no internal controls or if internal controls are not adequate.

    (c) *What is sufficient appropriate evidence* – Key assurance concepts will be covered including the level of assurance being provided i.e., limited v reasonable, exercising professional scepticism and judgement, and the consideration of materiality.

    (d) *Materiality for non-financial information* – This guidance will potentially be a case study or scenarios to demonstrate the application material in the assurance standards.

    (e) *Issue areas applying the wider ISAs to service performance information* – Applying sampling techniques to service performance information has been identified as an area of concern when applying the wider ISAs. This guidance will focus particularly on qualitative measures.

Timetable

24. The following project timetable is planned across accounting and assurance activities.

Month	Accounting Activities	Assurance Activity
November 2024	• Review existing legislative requirements • Begin stakeholder mapping • Collate data on currently reported performance measures • Identify guidance topics	• Monitor the developing proposals to amend PBE FRS 48 with an assurance lens • Identify joint guidance topics • Begin drafting assurance guidance
December 2024	• Present preliminary views to NZASB and confirm due process intentions • Begin drafting amendments for clarification • Develop consultation strategy	• As above as work on PBE FRS 48 continues • One on one meetings with practitioners and regulators to better understand issues to inform assurance guidance • Continue drafting assurance guidance
January 2025	• Finalise draft amendments • Begin developing reporting roadmap	• Continue drafting assurance guidance
February 2025	• Present draft amendments to NZASB • Begin drafting guidance	• Explore progress on assurance guidance with the NZAuASB

		• Begin drafting joint “preparer/assurance” guidance with the accounting team
March 2025	• Continue drafting guidance • Hold feedback /roundtable sessions with stakeholders to test drafted guidance materials and proposed changes to the standard	• Obtain feedback from practitioners on draft assurance guidance • Refine draft joint “preparer/assurance guidance” • Refine assurance guidance
April 2025	• Present combined ED and draft guidance package for approval to consult • Launch public consultation	• Present draft joint guidance for approval • Approval of drafted assurance guidance
May 2025	• Conduct sector consultations on proposals	• The consultation and development of guidance will be a continuous and iterative process. We will continue support the implementation of the assurance standards for service performance information, by engaging with stakeholders to identify issues and address concerns.
June 2025	• Conduct sector consultations on proposals	
July 2025	• Process early consultation feedback • Continue guidance development	
August 2025	• Finish processing ED feedback • Present feedback to the NZASB • Update amendments and guidance	
September 2025	• Finish revising amendments and guidance based on feedback	
October 2025	• Seek approval to issue final amendments to NZASB and determine timing of PIR • Publish all guidance material	• Publish all joint guidance material
November 2025	• Education and awareness outreach of amendments and guidance	• Education and awareness outreach of guidance
December 2025	• Education and awareness outreach of amendments and guidance	• Education and awareness outreach of guidance

EXRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 4.2

Memorandum

Date: 21 November 2024

To: NZASB Members

From: Jamie Cattell

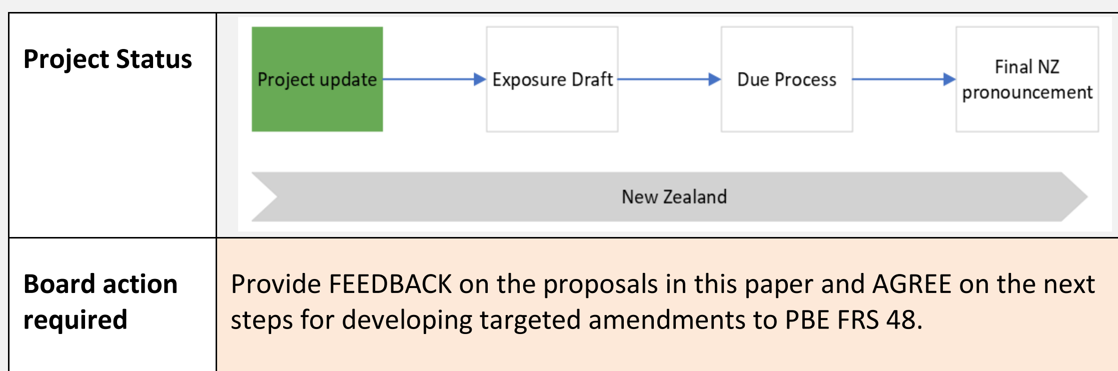
Subject: **Service Performance Reporting Improvements (Detailed Accounting Overview)**

COVER SHEET

Project priority and complexity

Project purpose	To enhance PBE FRS 48 *Service Performance Reporting* through targeted amendments that clarify requirements, provide additional guidance, and better support implementation across different sectors, while maintaining the existing principles. The amendments aim to respond to identified implementation challenges and verification challenges.
Cost/benefit considerations	A consideration of costs and benefits of proceeding with the recommendations are considered in this paper. Our view is that the benefits of making the recommended amendments will exceed the costs of implementation, given the feedback received from preparers about the challenges of the existing standard.
Project priority	**High** The project is considered high priority to ensure appropriate response to the following concerns: • Implementation challenges identified since the standard's introduction, particularly for Not-For-Profit (NFP) entities; • Variation in reporting approaches between public sector and NFP PBEs, affecting the usefulness of service performance information; • Urgent need for clearer guidance to ensure effective implementation, especially for entities with limited resources and expertise; • Verification challenges affecting audit efficiency and effectiveness; • Questions over the role of service performance reporting in demonstrating accountability and supporting decision-making by users of PBE general-purpose financial reports.

Overview of agenda item



Project Status	Project update → Exposure Draft → Due Process → Final NZ pronouncement New Zealand
Board action required	Provide FEEDBACK on the proposals in this paper and AGREE on the next steps for developing targeted amendments to PBE FRS 48.

Purpose and introduction[1]

1. This purpose of this memo is to present:

   (a) Our analysis of the current implementation issues faced by Public Benefit Entities (PBEs) when applying PBE FRS 48 *Service Performance Reporting* (the Standard) and their possible underlying causes;

   (b) Preliminary staff views and recommendations for amendments to the Standard and other actions to address the identified implementation issues; and

   (c) Our proposed project plan and timeline for carrying out those actions.

Recommendations

2. The Board is asked to

   (a) **CONSIDER** and PROVIDE FEEDBACK on the analysis of current issues and preliminary staff views;

   (b) **AGREE** the next steps in drafting proposed amendments to the Standard;

   (c) **PROVIDE FEEDBACK** on the project plan and timeline; and

   (d) **AGREE** to form a drafting subcommittee comprising members of the New Zealand Accounting Standards Board (NZASB) and members of the New Zealand Auditing and Assurance Standards Board (NZAuASB).

Structure of this memo

3. The remaining sections of this memo are:

   (a) Background

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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).

(b) Analysis of current issues

(i) Structural issues preventing effective implementation

(ii) Content ambiguities

(iii) Capability and capacity constraints leading to limited measurement diversity

(iv) Assurance challenges

(c) Proposed amendments

(i) Content and definition clarification

(ii) Conceptual Framework alignment

(iii) Introducing a basis of preparation

(iv) Structural changes to the standard

(d) Support and implementation guidance

(e) Expected costs and benefit

(f) Project plan and timeline

(i) Timeline

(ii) Drafting subcommittee

(g) Next Steps

(h) Appendices

Background

4. PBE FRS 48 was developed to establish requirements for service performance information reporting and address a gap in the PBE Standards. The standard aimed to better meet the information needs of users of PBE general-purpose financial reports, recognising that financial statements alone do not provide all the information users require for accountability and decision-making purposes for PBEs.

5. When the NZASB first issued PBE Standards in 2013, it included non-integral guidance on reporting service performance information in PBE IPSAS 1, based on Technical Practice Aid 9. This was intended as an interim step pending the development of a comprehensive standard on service performance information (BC6). The interim guidance was originally developed for public sector entities but was modified to be appropriate for both public sector and NFP PBEs.

6. The development of the standard involved consideration of:

   (a) The information needs of users of general-purpose financial reports;

(b) Recent projects of other standard-setters, including IPSASB's Recommended Practice Guideline (RPG) 3;

(c) Existing legislative requirements in the public sector; and

(d) The different circumstances of public sector and not-for-profit entities.

7. The NZASB issued ED NZASB 2016-6 Service Performance Reporting in February 2016, receiving 18 comment letters and additional feedback through outreach initiatives. While respondents supported the project, they highlighted that further work was required to develop a standard that could be applied by a range of public benefit entities (BC2).

8. At that time, the key concerns of the ED included:

   (a) The prescriptive nature of the proposed requirements;

   (b) The difficulty some entities would face in meeting the requirements; and

   (c) The need for more flexibility in how entities could report service performance information.

9. In response to that feedback, the NZASB made substantial changes between the ED and final standard, particularly in relation to the information to be reported. For this reason the NZASB considered that the changes warranted further consultation.

10. However, the NZASB also did not consider that the standard required a full consultation process. Therefore, rather than re-exposing the entire standard, the NZASB opted for a limited scope review process. The NZASB considered this approach appropriate for several reasons:

    (a) The changes, while substantial, were in direct response to feedback received on the original ED;

    (b) Respondents had already raised the main issues with the proposals in the original ED;

    (c) A limited scope review would provide a check that there were no fundamental issues with the revised proposals; and

    (d) It would allow for targeted feedback on the specific areas that had changed significantly.

11. In May 2017, the Board published a draft standard and feedback statement on its website for this purpose. The Board sought views on the workability of the revised proposals and any potential unintended consequences resulting from the changes.

12. This limited scope review process resulted in 12 submissions from a range of constituents. Most responses were supportive of the more principles-based approach, while also suggesting further refinements. The NZASB carefully considered this additional feedback before finalising

the standard. and released the final version of PBE FRS 48 in November 2017, effective from 1 January 2021. The main changes from the ED included:

(a) Moving from a prescriptive approach to more principles-based requirements;

(b) Removing specific guidance on determining and reporting outputs and outcomes;

(c) Providing greater flexibility in how entities report service performance information;

(d) Introducing new requirements for disclosing significant judgements; and

(e) Removing detailed definitions and prescribed performance dimensions.

13. The Board opted for this approach to:

(a) Provide sufficient flexibility for entities to 'tell their story' in a meaningful way;

(b) Avoid difficulties that could arise with a more prescriptive approach;

(c) Avoid imposing unnecessary costs on entities; and

(d) Allow for different performance frameworks used by various entities.

14. The standard was amended in August 2020, which deferred the effective date by one year, from 1 January 2021 to 1 January 2022, and clarified that explanations of variances are required only when an entity presents comparisons of actual versus prospective information. No other significant amendments have been to the standard.

15. As noted in Agenda Item 4.1, the XRB has been hearing frustrations (indirectly) relating to the reporting and assurance of service performance information. In 2024, we held a series of stakeholder workshops to seek feedback on the experience of preparers, users, and auditors of both public sector and NFP entities.

16. The feedback received on the implementation of the Standard has revealed both strengths and challenges of this principles-based approach. While the flexibility has been welcomed by some entities, particularly in the public sector, it has created challenges for others, especially:

(a) Not-for-profit entities with less established reporting practices.

(b) Smaller entities with limited resources and expertise.

(c) Entities new to service performance reporting.

(d) Auditors seeking to verify compliance with the standard without specific criteria for measurement of service performance.

17. These implementation challenges, combined with significant differences in how public sector and NFP entities have approached the standard, have prompted the need to consider further amendments to provide additional clarity and support.

18. Agenda Item 4.1 outlines the planned approach to the amendments of the standard, while the rest of this paper explains the basis for the planned approach and the analysis performed in arriving at the planned approach.

Analysis of Current Issues

19. Our analysis of current implementation challenges with the standard involved a comprehensive review of historical feedback, reflections on current implementation experience, and stakeholder consultation through the workshops held in 2024.

20. Based on this analysis we identified three root causes for the challenges faced in the standard's implementation. These are outlined in Agenda Item 4.1 and include:

    (a) *Clarity*: There is a need to improve the clarity of the Statement of Service Performance requirements and concepts;

    (b) *Capability and Capacity*: NFP entities currently lack capability and capacity to report on service performance information effectively; and

    (c) *Verification*: There have been significant queries over the cost and value of the audit of service performance information.

Structural issues preventing effective implementation

21. The standard's one-size-fits-all approach, while intended to provide flexibility, may have created implementation challenges due to fundamental differences between sectors. Key differences include:

    (a) Legislative context variations: Public sector entities operate under specific legislative frameworks with established performance reporting requirements, while NFP entities typically have more diverse accountability arrangements. This difference was acknowledged in the standard's development (BC10-11), but its implications may not have been fully addressed through sector neutral requirements.

    (b) Reporting framework inconsistencies: The removal of specific guidance on outputs and outcomes has created particular challenges for entities without established performance frameworks. While public sector entities often have existing frameworks to rely on, NFP entities frequently lack such structures.

    (c) Resource implications: The principles-based approach assumes entities have the capability to develop appropriate reporting approaches, but feedback indicates this assumption doesn't hold for some smaller entities, particularly in the NFP sector.

22. Our assessment of the impact of these differences between Public Sector and NFP entities are summarised in table 1 below.

Table 1 - Impact of differences between public sector and not-for-profit entities.

Attributes	**Public Sector**	**Not-for-Profit**

Reporting frameworks	Operate within comprehensive legislative frameworks which focuses on accountability to Parliament The Public Finance Act 1989 [2] and the Crown Entities Act 2004 include the following explicit requirements directly relevant to service performance: • Information on Strategic Intentions/Statement of Intent: - Strategic objectives for next 4+ years - Nature and scope of functions and operations - Management approach to meet intentions - Organisational health and capability plans • Statement of Performance Expectations: - Identified reportable output classes - Expected revenue and proposed expenses - Performance assessment criteria - Forecast financial statements • Annual Reports: - Assessment of operations and strategic progress - Organizational health and capability reporting - Performance against appropriations - Revenue and expense comparisons by output class • End-of-Year Performance Information: - Achievement against appropriations - Actual vs appropriated expense comparison - Detailed output delivery reporting	• No formal legislative structure for non-financial reporting outside of the requirement to comply with XRB standards.[3] • Absence of mandated planning • Variable requirements based on the types and nature of funding secured by entities • Diverse arrangements which prioritise benefiting society rather than accountability
Performance framework	• Leverage existing frameworks • Clearer understanding of user needs and focus on accountability to Parliament across individual Votes and Appropriations • Limited primary stakeholders	• Challenging to develop fundamental frameworks due to constraints in resources • Difficulties in identifying user needs due to changing funding arrangements each year • Greater diversity in stakeholder groups across entities
Resource and capability	• Dedicated professional staff • Established systems and reporting resources • Experience with general-purpose reporting • Central agency guidance (Treasury, OAG)	• Minimal systems • Resource constraints (incl. staff turnover, limited expertise and more reliant on volunteer staff)

[2] Full extracts of the relevant sections from the legislation are included in supplementary paper 4.3 of this agenda item.

[3] For example, while section 42A of the Charities Act 2005 imposes the requirement comply with GAAP for registered charities when preparing the accompanying financial statements for their annual return, the Act imposes no requirements to follow any planning processes analogous to those in the Public Finance Act 1989 or the Crown Entities Act 2004.

	• Regular training	• More dependent on guidance to explain principles
Systems and cost impact	• Potentially lower implementation costs due to the ability to build on established frameworks and processes • Greater consistency in public sector auditors due to OAG appointment and broad oversight.	• Potentially higher implementation costs to develop processes and frameworks from scratch. • Wider range of auditors in the NFP sector without any specific oversight.
Primary Implementation Effort	• Aligning PBE FRS 48 with existing obligations (essentially building off an established reporting base) • Managing and building on existing frameworks • Coordinating different reporting streams • Balancing user needs	• Developing frameworks without structured guidance or processes (no existing reporting base to leverage from) • Determining measures and consideration of internal controls • Building capability • Meeting audit requirements

Content ambiguities

23. The move from more prescriptive requirements in the ED, to principles-based requirement in the final standard, has created several areas of ambiguity related to the purpose and objectives of the statements of service performance.

24. While the Standard requires entities to "provide users with sufficient contextual information" (paragraph 15) it has not provided enough clarity about the fundamental purpose of service performance reporting. This confusion manifests in several ways:

    (a) Uncertainty about whether the primary purpose is accountability to funders, broader stakeholder communication, or internal performance assessment;

    (b) Lack of clarity about how to balance different user needs when determining what information to include;

    (c) Confusion about whether the focus should be on immediate outputs, short to medium-term outcomes, or long-term impacts; and

    (d) Difficulty in determining how much detail to provide about internal processes and judgements or how to aggregate information so that key performance information is communicated in an engaging and understandable way.

25. This uncertainty appears to stem from the removal two key elements from the Standard that provided conceptual framing for the statement of service performance:

    (a) Concepts and Definitions: The removal of defined terms from the ED (such as outputs, outcomes, and impacts in ED paragraph 24) has led to inconsistent interpretation and application across entities. This is particularly evident in how entities determine what constitutes appropriate and meaningful service performance information.

    (b) User identification challenges: The removal of detailed discussion about users and their information needs that was present in the ED (ED paragraphs 2-7). While the final

standard includes brief references to users in paragraphs IN4 and IN5, it provides less specific guidance about how different types of entities should think about the purpose of their service performance reporting. This has particularly affected NFP entities, who often lack the established reporting frameworks and user engagement mechanisms.

Capability and capacity constraints leading to limited measurement diversity

26. Capability and capacity limitations across the NFP sector were a key concern raised in our stakeholder workshops which has resulted in entities reporting the same measures or financial statement information as service performance information, so that this minimises costs and ensures the information would be assured.

27. To assess the variety in performance measures currently being reported, we selected a sample of 51 NFP entities, and 46 public sector entities, across a range of main sectors from the annual returns filed on the Charities Register (NFPs) or annual reports (Public Sector).

28. The NFP sample was selected based on the most recent annual returns filed as at 23 October 2024 and covers a range of balance dates for years ending on or after 31 December 2022 and on or before 31 March 2024.

29. The public sector sample was derived from the sample used in the XRB research project *service performance reporting in the public and not-for-profit sectors*.

30. From this sample, we extracted the performance measures reported by those entities in their statements of service performance and categorised each measure into one of the following three types of measures permitted under the Standard:

    (a) Quantitative measures

    (b) Qualitative measures

    (c) Qualitative descriptions

31. The breakdown of the total number of each of these measures is included in table 2 below.

Table 2 – NFP entity measure types

NFP (51 entities)	Quantitative	Qualitative	Qualitative descriptions	Total
Number of measures	551	32	25	**608**
Percentage	91%	5%	4%	**100%**
Public sector (46 entities)	**Quantitative**	**Qualitative**	**Qualitative descriptions**	**Total**
Number of measures	1,233	151	50	**1,434**
Percentage	86%	11%	3%	**100%**

32. Current reporting practices show there is minimal range and balance of performance measures being reported across both the public and NFP sectors:

    (a) Quantitative bias: Despite the standard allowing for both quantitative and qualitative measures, it appears that most entities are defaulting to output-focused measures that

are easier to quantify and verify. In part this may be due to the removal of the explicit requirements to report on outcomes and a push from auditors to drive entities to report verifiable quantitative measures.

(b) Short-term emphasis: The challenge of reporting on the medium to long-term effects of entities' work also appears to have led many entities to focus primarily on immediate outputs which are relatively easier to measure than broader outcomes.

Assurance challenges

33. The principles-based approach has created specific challenges for audit and assurance:

(a) Judgement verification: Assurance practitioners face difficulties in assessing the appropriateness of judgements made under paragraphs 44-47, particularly regarding the selection and measurement of performance indicators.

(b) Evidence requirements: The lack of specific criteria for performance measures (removed from ED paragraphs 46-50) has created uncertainty about what constitutes sufficient evidence for verification purposes.

(c) Consistency assessment: Assurance practitioners report challenges in assessing whether changes in reporting approach comply with the consistency requirements (paragraph 40), while allowing for appropriate evolution in reporting practices.

34. These issues are interconnected and often reinforce each other. For example, content ambiguities and capability limitations lead to inconsistent interpretation, which in turn creates verification challenges. Any proposed amendments need to address these issues in unison, while maintaining the benefits of a principles-based approach.

35. The impacts specific to the public sector and NFPs, identified above, also directly affect how verification challenges manifest. Verification appears to be easier for public sector entities as they have legislatively driven performance frameworks and can link reporting through to planning documents and targets. NFPs struggle to demonstrate clear, consistent reporting frameworks with less documentation, which drives verification challenges.

36. These differences suggest the need for a more nuanced approach to implementation support, potentially including:

(a) Sector-specific information which acknowledge different starting points for public sector and NFPs;

(b) Targeted support for NFP framework development; and

(c) Recognition of existing public sector requirements.

Proposed amendments

37. As part of our consideration, we have also considered the responsibilities of the XRB to establish and maintain NZ financial reporting strategy. Given PBEs are not solely focused on financial returns, we believe reporting on service performance information is important to

allow users to fully understand and make effective decisions about PBEs. As a result, the reporting of service performance information helps New Zealand prosper through effective decision-making for resource allocation informed by high-quality, trusted, and integrated reporting.

38. Our view is that the existing principles in the standard are robust and reasonable, and when applied as intended by the Board, would provide useful information for users of PBE general purpose financial reporting. Therefore, we do not plan to fundamentally change the standards requirements through this project.

39. However, the proposed amendments primarily aim to address the implementation challenges by focusing on the clarity with which its principles are expressed and to ensure the thought processes behind the principles are appropriately considered, applied and communicated through the reporting.

40. We recommend making amendments in the following four areas of the Standard.

Table 3 - Clarifying amendments

Area	Details
Content and definition clarification	**<u>Purpose and scope</u>** Modify and expand on paragraph 1 to add explanatory material which reinforces that the Statement of Service Performance (SSP) is primarily an accountability document focused on: (a) Reporting performance measures which faithfully represent an entity's outputs and the closely linked outcomes that can be clearly attributed to those outputs. (b) Providing information that meets identified user needs for accountability and decision-making (c) Service Performance during the reporting period rather than long-term impacts (d) Matters within the entity's control or direct influence **<u>Key definitions</u>** Reintroduce and modify some of the key terms that were removed from the ED (paragraph 24) to provide clearer guidance while maintaining flexibility. We propose defining the following terms: 1. Output 2. Outcome 3. Impact (potentially) 4. Performance measure 5. Service performance (potentially) **<u>User identification</u>** Reintroduce modified content from ED paragraphs 2-7 regarding users and their information needs, including: (a) Guidance on identifying primary users for different entity types (b) Common information needs across user groups (c) Factors to consider in prioritising different user needs (d) Examples of how user needs influence selection of performance information

Area	Details
	(e) Requirements to explain how user needs were considered in selecting performance measures
Conceptual Framework alignment	**PBE Conceptual Framework** Modify paragraphs 7-10 to: (a) Ensure alignment with the PBE Conceptual Framework's discussion of qualitative characteristics (b) Provide clearer guidance on applying characteristics to service performance information (c) Clarify the application of verifiability to different types of measures (d) Explain how to balance different characteristics when selecting information to report
Basis of preparation requirements	Introduce new requirements to disclose a basis of preparation of service performance information (discussed further below) **Appropriate and meaningful** Provide greater explanation to clarify that a mix of performance measures is appropriate and meaningful when it: (a) Results from systematic consideration of user needs such that it helps users assess the entity's effectiveness in achieving its objectives (b) Establishes clear links between outputs and outcomes (c) Represents factor matters within the entity's control or direct influence (d) Provides a balanced view of performance (e) Is verifiable
Structural changes to the Standard	**Sector specific authoritative appendices** Introduce sector-specific guidance will be proposed to the standard (through authoritative appendices). This guidance will address the different environment faced by each sector, such as legislative differences and the development of performance frameworks. For public sector entities, the guidance will focus on integrating service performance information with existing legislative requirements and government reporting frameworks. For NFP entities, the focus will be on framework development, linking outputs to outcomes and documenting judgments and assumptions

Content and definition clarification

41. As noted in paragraphs 7-10 above, the change made to the ED PBE FRS 48, following stakeholder feedback at the time, has resulted in the removal of information which terms and definitions which would be useful to aid preparers understanding of the broader concept of service performance reporting, and the service performance reporting required by legislation within financial statements.

42. We intend to propose amendments to clarify the scope and purpose of service performance reporting, ensuring that entities understand the fundamental objectives of the SSP and the expectations around the nature of information it should contain. This includes:

    (a) Modifying the objective and scope of the standard to emphasise that the SSP is primarily an accountability document focused on reporting performance measures that

faithfully represent an entity's outputs and closely linked outcomes within a reporting period.

(b) Reintroducing key definitions that were removed from the final Standard, such as "output" and "outcome" (and potentially "impact") to provide clearer guidance on the purpose and scope of PBE FRS 48 while maintaining flexibility.

(c) Adding authoritative guidance on identifying primary users and their information needs to help entities select appropriate and meaningful performance measures and communicate these in an engaging manner which aids in users' decision-making.

Conceptual Framework alignment

43. To improve the consistency and understandability of the nature of service performance information which should be reported in general-purpose reporting, we propose to align the verifiability considerations required under PBE FRS 48 to the existing Conceptual Framework.

44. This will help ensure entities think consistently across their financial and non-financial reporting when considering the information which should be reported, the expectations of users and the evidence required to support assertions.

Introducing a Basis of preparation

45. To address verification challenges and support more consistent application, we propose introducing new requirements for a basis of preparation of service performance information. In essence, we intend for these requirements to be service performance policies similar to accounting policies in the financial statements.

46. The basis of preparation would add requirements to disclose policies explaining how the entity has:

(a) Identified and prioritised user needs for its service performance information;

(b) Selected its mix of performance measures;

(c) Determined that the mix of performance measures reported is an appropriate representation of any outcomes they purport to represent;

(d) Determined that the outcomes are aligned with the entity's stated purposes;

(e) Applied materiality in selecting information to report; and

(f) Dealt with measurement uncertainty through its measurement techniques and ensure a reliable and relevant representation of performance.

47. As part of this we also recommend enhancing the judgement disclosures in paragraphs 44-47 of the Standard to provide more specific explanations of:

(a) The process used to identify and select relevant performance measures;

(b) The measurement approach applied to each relevant performance measure;

(c) The rationale for any changes in selection and measurement approach;

(d) Any key assumptions inherent in the reported performance measures performance;

(e) Any limitations in performance measurement; and

(f) The degree of judgement relied upon when determining that the collection of reported performance measures is a relevant and reliable representation of any outcomes they purport to represent.

48. We will also consider whether changes are needed to the “appropriate and meaningful” concept to ensure that preparers consider how the reported performance measures link through to organisational strategy and intended outcomes, consider the principles within the Conceptual Framework and consider that individual performance measures, and the overall collection of performance measures, provide an accurate representation of performance in the period.

49. It is important to ensure that entities disclose how they have determined the performance measures they chose to report are appropriate and meaningful individually, and collectively overall, and the measurement techniques used to report actual performance against the determined measure.

50. These changes will provide users with relevant information to understand and use the service performance information and give assurance practitioners a framework to assess the reported performance against.

Structural changes in the Standard

51. We consider that the service performance reporting principles included within the standard are appropriate for both the public sector and NFP sectors, as the principles were designed to ensure high quality of service performance irrespective of the nature of the entity. As noted above, the principles were developed with feedback being obtained for both sectors and balanced the information needs of preparers In both sectors.

52. However, based on the table 1 above, there are significant differences between public sector and NFPs, which results in a different environment faced by each sector, such as legislative differences and the development of performance frameworks. This drives a different emphasis on elements of PBE FRS 48 to allow for effective reporting within each sector.

53. As the most significant differences between public sector and NFPs arise from legislative differences, and the influence of those differences on developing statements of service performance, we propose adding two individual sector-specific appendices to the Standard.

54. These appendices would focus on the basis of preparation of service performance information and would provide more specific guidance on what is required as part of that basis of preparation within that sector.

55. For example, for NFP entities, the content of the appendix will focus on framework development:

    (a) Steps for developing a performance framework;

    (b) Linking outputs to outcomes;

    (c) Selecting appropriate measures that provide evidence of the link between outputs and outcomes; and

    (d) Documenting judgments and assumptions.

56. For public sector entities the content would be on the same topics as the NFP appendix, but at built around public sector specific factors such as:

    (a) Integration with legislative requirements;

    (b) Alignment with government reporting frameworks;

    (c) Treatment of appropriation-funded activities; and

    (d) Cross-agency collaboration reporting.

57. We considered the option to split PBE FRS 48 into two separate reporting standards – one for the public sector, and one for the NFP sector, however as the existing principles of the standard are considered appropriate for both sectors, we do not consider it appropriate to create two PBE reporting standards which contain the same principles, as this is likely to cause more confusion and decrease comparability of service performance information.

Support and implementation guidance

58. To better support different entity types while maintaining a single standard, we also propose developing additional non-authoritative application guidance on what a good Statement of Service Performance looks like as an accountability document.

59. For a summary of planned guidance refer to Agenda Item 4.1. Further key topics and examples to include may potentially be:

    (a) Identifying and considering user needs;

    (b) Selecting appropriate measures, supported by practical examples of currently reported measures (best practices);

    (c) Balancing quantitative and qualitative information and connecting different types of measures;

    (d) Ensuring verifiability criterion is met and considerations of this requirement when selecting relevant performance measures;

    (e) Dealing with attribution issues arising from collaborative arrangements; and

(f) Presentation of service performance information including examples of different reporting formats suitable for various entity types.

60. As guidance on many of these areas is already included in *Explanatory Guide A10*, we intend to develop the guidance as short one to two page "snapshots" focused on specific subsectors. As NFP entities appear to face the greatest difficulties in applying the Standard to their specific sectors, we intend to focus on these first and cover a range of different sectors.

61. Appendix A contains an analysis of the size of NFP subsectors based on data from the public charities register. Based on the analysis, the most significant NFP subsectors which we intend to develop "one pager" guidance for first are:

- Health
- Education / training / research
- Social services
- Religious activities

Expected costs and benefits

62. We have considered the costs and benefits of the proposed amendments to the Standard. While there will be some implementation costs, we expect these to be outweighed by the long-term benefits of improved reporting quality and reduced ongoing compliance costs.

63. The expected costs and benefits of the proposed amendments are outlined in table 4 below.

Table 4 – Expected costs and benefits of proposed amendments to PBE FRS 48

Category	New	Continuing
Costs	**Basis of preparation requirements:** • Time and resources to develop reporting frameworks • Staff training on new requirements • Documentation of processes and judgments **Enhanced disclosure requirements:** • Additional effort to document and explain judgments • Development of accounting policies for service performance • More detailed documentation of measurement approaches	The Board anticipated some costs would be incurred by entities to: • Develop systematic approaches to service performance reporting • Document their measurement methodologies • Establish appropriate processes and controls
Benefits	**Improved clarity and application:** • Clearer conceptual foundation through reintroduced definitions of core concepts • Better user focus through enhanced guidance on user needs	**More efficient processes:** • Clearer requirements reducing time spent on interpretation • Reduced need for external advice • More effective use of existing resources

	• More structured decision-making framework • Reduced interpretation uncertainty • Lower risk of rework due to misunderstanding	• Better framework for progressive implementation
	Enhanced reporting quality: • More balanced measurement approaches • Better linkage between outputs and outcomes • More meaningful contextual information • Improved relevance to user needs • Stronger evidence base for reported information	**Reduced audit costs:** • Clearer verification criteria • Better documentation requirements • More consistent audit approaches • Improved evidence trails • Clearer boundaries for professional judgment

Cost-benefit analysis

64. Overall, our view is that the benefits of the proposed amendments outlined in the above project plan will outweigh the costs, for the following reasons:

    (a) The implementation costs should not significantly exceed those originally anticipated during the development of PBE FRS 48;[4]

    (b) Enhanced guidance will reduce ongoing compliance costs;

    (c) Better documentation requirements will improve audit efficiency;

    (d) Sector-specific support will facilitate more effective implementation; and

    (e) Improved reporting quality will better serve user needs for effective decision-making.

Questions for the Board

Q1. Does the Board have any comments or feedback on the analysis of the issues around reporting service performance information, and the preliminary staff views outlined above?

Q2. Does the Board agree with the project plan proceed outlined in table 4 above, including:

(a) Drafting the clarifying amendments to the Standard

(b) Drafting amendments to the standard to require disclosure of the basis of preparation of service performance information?

(c) Drafting amendments to the Standard to introduce sector specific appendices?

If not, why not and what alternatives would the Board prefer?

[4] When the standard was first issued, the Board expected entities would incur some costs to develop systematic approaches to service performance reporting, document measurement methodologies, and establish appropriate processes and controls. The new requirements primarily reinforce the need for processes that should already be occurring, rather than introducing entirely new obligations

Project plan and timeline

65. While we are recommending amendments to the standard, as the core principles are being maintained, we consider that users will be most likely to be in a position to assess whether modifications will be helpful if they are able to consider it alongside the supporting guidance.

66. For that reason, we recommend publishing some of the key draft guidance such as sector specific examples of performance measures alongside the exposure draft to provide an overall package for respondents to consider.

67. The objective of doing this would be to enable entities to assess in whether the materials in their totality:

    (a) Clarify the requirements of the Standard

    (b) Provide clear illustrations of ways the Standard can be applied in practice.

68. For the avoidance of doubt, we do not intend to seek comments on the guidance material as part of the formal consultation process although we will take into account any feedback on the ED prior to publishing the guidance material.

Timeline

69. A broad timeline for developing and issuing amendments to the Standard is included below.

Table 5 – Broad project plan phases

Phase	Timeline	Activities
Drafting amendments and scoping	November 2024 - January 2025	• Determine specific changes and develop amendments • Guidance topics
Guidance development	February -March 2025	• Draft guidance
Public consultation	April – July 2025	• Seek NZASB approval • Issue exposure draft and draft guidance • Stakeholder engagement
Finalise amendments and guidance	August - October 2025	• Analyse feedback • Finalise amendments • Seek NZASB approval • Finalise guidance documents

70. A detailed timeline of tasks across the period, for both the accounting and assurance teams, is included in Agenda Item 4.1.

Questions for the Board

Q3. Does the Board have any other feedback on the project plan and timelines?

Drafting subcommittee

71. To ensure the amendments effectively address both reporting and assurance challenges, we propose establishing a drafting sub-committee comprising two members from the NZASB and two members from the NZAuASB. This sub-committee will help ensure that:

    (a) Updated reporting requirements and developed guidance is clear and practical;

    (b) Verification considerations are appropriately addressed;

    (c) Implementation challenges for both preparers and auditors are considered; and

    (d) Changes maintain appropriate balance between flexibility and verifiability.

Questions for the Board
Q4. Does the Board agree to establish a drafting subcommittee, together with members of the NZAuASB? If so, we would appreciate volunteers from the NZASB.

Next steps

72. If the Board agrees with the recommendations, we will begin drafting the proposed amendments, and supporting guidance, for the Board's to consider at the next meeting.

Attachments

Agenda item 4.3	Extracts from the Public Finance Act 1989 and the Crown Entities Act 2004 (in supporting papers)
Agenda item 4.4	Mapping of paragraphs from NZASB ED 2016-6 to PBE FRS 48 (in supporting papers)
Agenda item 4.5	Analysis of ED and workshop feedback against changes between NZASB ED 2016-6 and PBE FRS 48 (in supporting papers)

Appendix – Analysis of NFP subsectors

1. To identify the most significant NFP subsectors we carried out the following steps:

   (a) Retrieved the most recent annual return data from the charities register
   (b) Filtered for entities with total expenditure in excess of the new Tier 2 threshold of $5 million.
   (c) Split the filtered list into entities in excess of the Tier 2 threshold and entities in excess of the Tier 1 threshold of $33 million.

   (d) Grouped each set of returns by the entity's main sector as identified in the return.

2. The breakdown of each set of entities by main sector is included in Tables 6 and 7 below.

Table 6 – Tier 1 NFP entities by subsector

Tier 1				
Sector	**#**	**Aggregate Expenditure**	**Median Expenditure**	**Mean Expenditure**
Health	34	$ 5,317,324,246	$ 71,565,165	$ 156,391,890
Education / training / research	26	$ 5,846,931,054	$ 75,627,763	$ 224,881,964
People with disabilities	10	$ 904,371,695	$ 50,764,680	$ 90,437,170
Religious activities	9	$ 1,073,224,784	$ 90,754,000	$ 119,247,198
Social services	9	$ 567,301,298	$ 58,772,933	$ 63,033,478
Community development	5	$ 463,655,078	$ 91,363,000	$ 92,731,016
Fund-raising	2	$ 146,679,051	$ 73,339,526	$ 73,339,526
Emergency / disaster relief	2	$ 115,876,596	$ 57,938,298	$ 57,938,298
Accommodation / housing	2	$ 85,728,615	$ 42,864,308	$ 42,864,308
Employment	1	$ 600,024,000	$ 600,024,000	$ 600,024,000
Environment / conservation	1	$ 172,216,000	$ 172,216,000	$ 172,216,000
Sport / recreation	1	$ 65,649,000	$ 65,649,000	$ 65,649,000
Care / protection of animals	1	$ 64,108,520	$ 64,108,520	$ 64,108,520
Arts / culture / heritage	1	$ 54,425,000	$ 54,425,000	$ 54,425,000
Other	10	$ 1,028,903,519	$ 68,101,500	$ 102,890,352
Total	**114**	**$ 16,506,418,456**		

Table 7 – Tier 2 NFP entities by subsector

Tier 2				
Sector	**#**	**Aggregate Expenditure**	**Median Expenditure**	**Mean Expenditure**
Health	149	$ 1,813,097,688	$ 9,769,102	$ 12,168,441
Education / training / research	130	$ 1,580,438,964	$ 10,305,385	$ 12,157,223
Social services	79	$ 898,257,484	$ 8,416,216	$ 11,370,348
Religious activities	44	$ 628,123,090	$ 13,276,981	$ 14,275,525
Accommodation / housing	33	$ 383,966,635	$ 8,078,388	$ 11,635,353
People with disabilities	29	$ 330,965,496	$ 10,193,000	$ 11,412,603

Community development	23	$ 340,634,219	$ 11,540,731	$ 14,810,183
Environment / conservation	21	$ 232,655,850	$ 7,703,467	$ 11,078,850
Sport / recreation	18	$ 188,199,053	$ 9,003,930	$ 10,455,503
Arts / culture / heritage	16	$ 191,281,285	$ 10,297,033	$ 11,955,080
Emergency / disaster relief	10	$ 140,767,042	$ 10,416,293	$ 14,076,704
Fund-raising	10	$ 125,450,908	$ 10,943,055	$ 12,545,091
International activities	8	$ 94,668,631	$ 12,501,425	$ 11,833,579
Economic development	3	$ 18,125,534	$ 5,812,162	$ 6,041,845
Employment	1	$ 11,336,000	$ 11,336,000	$ 11,336,000
Marae on reservation land	1	$ 8,357,347	$ 8,357,347	$ 8,357,347
Other	29	$ 320,004,196	$ 8,376,021	$ 11,034,627
Total	**604**	**$7,306,329,422**		

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 5.1

Memorandum

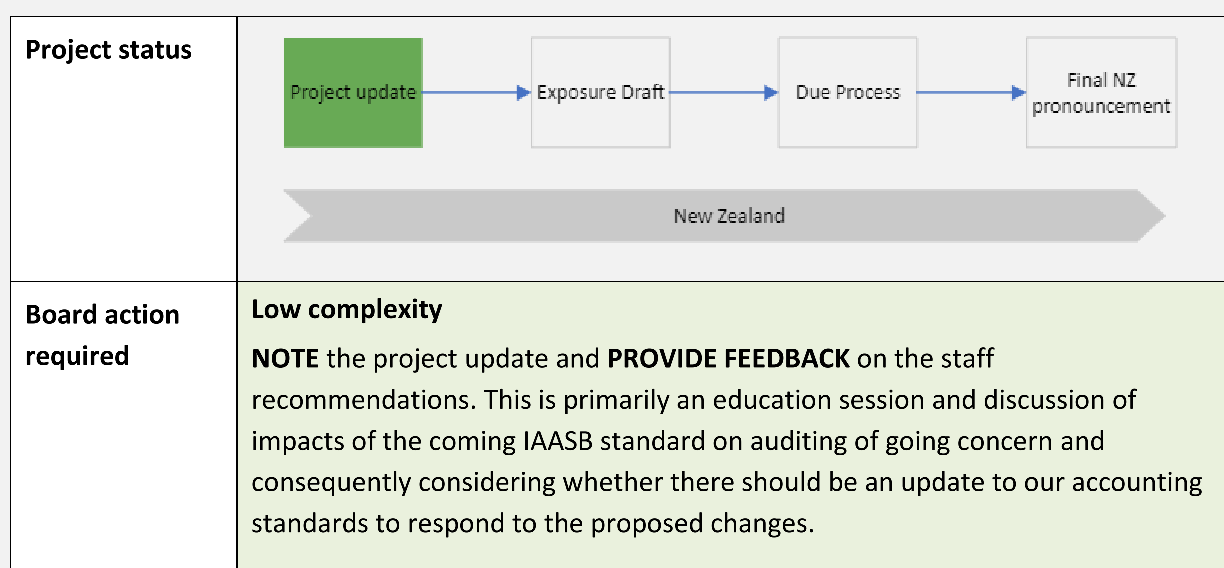
Date:	21 November 2024
To:	NZASB Members and NZAuASB Members
From:	Tereza Bublikova, Sharon Walker
Subject:	**Going concern – Update on the IAASB project**

COVER SHEET

Project priority and complexity

Project purpose	NZASB perspective – Consider whether the accounting standards in relation to going concern disclosures remains appropriate for NZ reporting entities, given recent international developments and upcoming changes in the auditing standard around going concern and consider whether domestic project on going concern disclosures should be initiated. International Auditing and Assurance Standards Board (IAASB) perspective - Promote consistent practice and behaviour, strengthen the auditor's evaluation of management's assessment of going concern and enhance transparency with respect to the auditor's responsibilities and work related to going concern.
Cost/benefit considerations	Consideration included within this memo.
Project priority	**Medium** Any changes in accounting standard requirements would affect all Tier 1 and Tier 2 NZ entities.

Overview of agenda item



Project status	Project update → Exposure Draft → Due Process → Final NZ pronouncement (New Zealand)
Board action required	**Low complexity** **NOTE** the project update and **PROVIDE FEEDBACK** on the staff recommendations. This is primarily an education session and discussion of impacts of the coming IAASB standard on auditing of going concern and consequently considering whether there should be an update to our accounting standards to respond to the proposed changes.

Purpose and introduction[1]

1. The purpose of this memo is to:

   a) Provide update on the International Auditing and Assurance Standards Board (IAASB) project on going concern; and

   b) Seek the NZASB's feedback on the staff recommendation **NOT** to add a domestic project on additional going concern disclosures at this stage.

Recommendation

2. We recommend that the NZASB:

   a) **NOTE** the update on the IAASB's project on going concern;

   b) **AGREE NOT** to add a domestic project on additional going concern disclosures at this stage, but rather keep monitoring IASB educational material activities regarding going concern (if any) and, when relevant, raise awareness about the new audit requirements and their potential impact on reporting entities and auditors; and

   c) **PROVIDE FEEDBACK** on staff's analysis and whether there are further matters which should be considered.

3. We recommend that the NZAuASB **NOTE** and **PROVIDE FEEDBACK** on staff's analysis and whether there are further matters which should be considered.

Structure of this memo

4. This memo includes the following sections.

   a) Background - the IAASB project on going concern

   b) Going concern disclosure requirements

      (i) *Proposals in the IAASB's [draft] ISA 570 (revised 2024)*

      (ii) *Implications of the auditing standards*

      (iii) *IASB going concern project history and position*

      (iv) *XRB going concern disclosures and staff guidance*

      (v) *Further IASB considerations around going concern*

      (vi) *Staff considerations - domestic project & harmonisation with Australia*

      (vii) *Staff analysis*

      (viii) *Staff recommendations*

      (ix) *Question for the Boards*

   c) Definition of 'material uncertainty' and clarification of 'may cast significant doubt'

      (i) *Staff considerations*

[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).

(ii) *Staff recommendations*

(iii) *Question for the Boards*

d) Commencement of the period of going concern assessment

(i) *IASB position*

(ii) *Staff considerations*

(iii) *Question for the Boards*

e) Appendix – extracts of relevant paragraphs from [draft] ISA 570 (Revised 2024)

Background - the IAASB project on going concern

5. The IAASB noted that corporate failures across the globe in recent years and conditions, such as war and the global pandemic, has led to stakeholder demands for enhanced transparency on going concern, highlighted issues pertaining to the auditor's responsibilities and work related around going concern and emphasised the need for a more robust going concern auditing standard[2].

6. In response in April 2023, the IAASB issued Exposure Draft proposing revised International Standard on Auditing 570 (Revised 202X), *Going Concern* (ED 570). The comment period closed in August 2023 followed by IAASB's deliberation of the feedback received.

7. The IAASB considered constituent's feedback and reflected it in the draft standard ISA 570 (Revised 2024), *Going Concern* ([draft] ISA 570 (Revised 2024)) which is expected to be approved at the IAASB's December 2024 meeting. If approved, the [draft] ISA 570 (Revised 2024) will be effective for audits of financial statements for periods beginning on or after 15 December 2026.

8. Once approved the International Standard on Auditing 570 (Revised 202X), *Going Concern* (ISA 570 (revised 2024)) will be assessed by the NZAuASB for adoption in New Zealand. The final standard will be considered by the NZAuASB across 2025.

9. The expected timeline is outlined below

**Please note there will be no further public consultation of the ISA (NZ) 570 in NZ as the feedback was already collected when consulting on ED 570.*

10. [Draft] ISA 570 (Revised 2024) is expected to introduce several changes and enhancements to the existing audit requirements. We have identified three areas which directly overlaps with the accounting standards:

    a) Requirements enhancing transparency about going concern in the auditor's report – see paragraphs 12–47 of this memo;

    b) Introduction of the definition of 'Material Uncertainty (Related to Going Concern)' and

[2] Quoted from the IAASB's Exposure Draft Proposed International Standard on Auditing 570 (Revised 202X) *Going Concern* section *Drivers for the Project.*

clarification of the phrase 'May cast significant doubt' – see paragraphs 48–56 of this memo; and

c) Change of the commencement date of the period of management's assessment of the entity's ability to continue as a going concern – see paragraphs 57–68 of this memo.

11. The diagram below provides summary of the above-mentioned changes to ISA 570 as in the [draft] ISA 570 (Revised 2024), the corresponding IASB position and XRB recommendations (outlined further below):

[Draft] ISA 570 (Revised 2024)	IASB Position	XRB Staff Recommendation
Explicitly state in audit report: • Going concern basis is appropriate; and • No material uncertainty identified	• No changes to IAS 1 needed – paragraphs 25 and 122 are sufficient • Potentially update IFRS educational material	• No domestic project at this stage • Keep monitoring the IASB activities
New definition of 'material uncertainty' and clarification of 'may cast significant doubt'	No changes needed – No inconsistency with IFRS	No action at this stage
Change commencement of going concern assessment	No changes needed – 12 months is a minimum period, not an absolute cap	No action at this stage

Going concern disclosure requirements

Proposals in the IAASB's [draft] ISA 570 (Revised 2024)

12. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the [draft] ISA 570 (Revised 2024) requires the auditor for all entities to explicitly state in a separate section of the auditor's report with the heading "Going Concern" that:

a) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

b) Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

c) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

In addition, for listed entities[3] when significant judgements are made by management in

[3] In New Zealand the term 'listed entity' is replaced with 'FMC reporting entity considered to have a higher level of public accountability'.

concluding that there is no material uncertainty related to events or conditions that may cast doubt on the entity's ability to continue as a going concern, the auditor should in the audit report:

(a) Include a reference to the related disclosure in the financial statements; and

(b) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

13. The table below summarises the going concern disclosures required by the current NZ Accounting Standards (NZ IAS 1/NZ IFRS 18, FRS 44, PBE IPSAS 1) and related auditor reporting requirements by [draft] ISA 570 (Revised 2024) in circumstances where the auditor determines that adequate disclosure has been made.. Extracts of relevant paragraphs from the [draft] ISA 570 (Revised 2024) are provided in the Appendix.

Table 1 - Going concern disclosure requirements

Circumstances	Basis of preparation	Disclosure requirements in NZ financial statements - NZ accounting standards	Transparency required in an audit report - IAASB [draft] ISA 570 (Revised 2024), *Going Concern*
1. No alternative but to cease trading or liquidate, or intention to do so	Going concern is not appropriate and an alternative basis of preparation has been used.	• Disclose that going concern is not the basis of preparation and the reason why the entity is not regarded as a going concern (NZ IAS 1.25 /PBE IPSAS 1.38); and • Explain what basis is used to prepare the financial statement (for example – Liquidation basis) (NZ IAS 1.25 /PBE IPSAS 1.38).	Include an "Emphasis of Matter" paragraph alerting users of the financial statements that the financial statements are prepared in accordance with a special purpose framework (as required by ISA 800).

Circumstances	Basis of preparation	Disclosure requirements in NZ financial statements - NZ accounting standards	Transparency required in an audit report - IAASB [draft] ISA 570 (Revised 2024), *Going Concern*
2. No events or conditions that cast doubt on ability to continue as a going concern are identified	Going concern is appropriate	• Disclose that going concern has been used as the basis of preparation (NZ IAS 1.112(a) /PBE IPSAS 1.127(a))	• Include a separate section "Going Concern", and • State that [4] ○ The auditor concluded that management's use of the going concern basis is appropriate; ○ The auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and ○ The auditor's conclusions are not a guarantee as to the entity's ability to continue as a going concern.
3. • Events or conditions are identified, but • No material uncertainties are identified • Adequate disclosure is made in the financial statements		Disclose: • Basis of preparation (NZ IAS 1.112(a) /PBE IPSAS 1.127(a)) • Information about the significant judgements and assumptions made (FRS 44.12A.2 / PBE IPSAS 1.41.2))	
4. • Events or conditions are identified, • Material uncertainties exist, and • Adequate disclosure is made in the financial statements	Going concern is appropriate	Disclose: • Basis of preparation (NZ IAS 1.112(a) /PBE IPSAS 1.127(a)) • Information about events or conditions giving rise to material uncertainty (FRS 44.12A.1(a)(b) / PBE IPSAS 1.41.1(a)(b)); • Information about the management's plans to mitigate the effect of those events or conditions (FRS 44.12A.1(c) / PBE IPSAS 1.41.1(c)); and	• Include a separate section under the heading "Material Uncertainty Related to Going Concern" • Include a reference to the related disclosure(s) in the financial statements[5]. • State that ○ These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern ○ The auditor's opinion is not modified in respect of the matter

[4] For an audit of financial statements of a listed entity, when significant judgements are made by management in concluding that there is no material uncertainty related to events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (i.e. the third scenario):

(i) Include a reference to the related disclosure(s) in the financial statements; and

(ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

[5] For an audit of financial statements of a listed entity, also describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Circumstances	Basis of preparation	Disclosure requirements in NZ financial statements - NZ accounting standards	Transparency required in an audit report - IAASB [draft] ISA 570 (Revised 2024), *Going Concern*
		• Information about how assets and liabilities may not be realised/discharged in the normal course of business (FRS 44.12A.1(d) / PBE IPSAS 1.41.1(d)); and • Information about the significant judgements and assumptions made (FRS 44.12A.2 / PBE IPSAS 1.41.2))	○ The auditor concluded that management's use of the going concern basis is appropriate. ○ The auditor's conclusions are not a guarantee as to the entity's ability to continue as a going concern.

Implications of the auditing standards

14. The proposed requirement to explicitly state that the use of the going concern basis is appropriate and that no material uncertainties were identified, raised several concerns mainly in the situations where there is no material uncertainties related to the going concern and where the going concern basis is appropriate (scenario 2 and 3 of the Table 1).

15. Auditors have pointed out that current financial reporting standards do not require an explicit statement that the going concern is appropriate and how this was determined. The preparers are required to disclose the basis on which the financial statements are prepared and therefore provide only implicit assertion.

16. Requiring auditors to make explicit statements, without a disclosure requirement for management, could imply that auditors have a greater responsibility than management about going concern and may widen the expectation gap. The intended users may place more reliance on the auditor when accepting the going concern basis, rather than the entity.

17. Auditors have encouraged the IAASB to continue discussions with the IASB and the IPSASB to ensure that a holistic approach is taken so that an appropriate balance between management, those charged with governance and auditor responsibilities is maintained.

IASB going concern project history and position

18. In January 2013, the IFRS interpretation Committee (IFRIC) recommended the IASB a narrow-focus amendment to IAS 1 with the objective to ensure that disclosures about going concern were timely and relevant. The IFRIC limited the project to two questions:

    a) When should an entity be required to disclose information about material uncertainties related to events or circumstance that cast significant doubts upon the entity's ability to continue as a going concern?

    b) What is the objective of those disclosures about material uncertainties about the entity's ability to continue as a going concern and what disclosures should be required?

19. The IFRIC proposed that disclosure is triggered by the existence of events or conditions that, by their magnitude, likelihood and timing, cast significant doubt upon the entity's ability to continue as a going concern. The proposal required disclosures about both the event or condition, and management's planned mitigating actions.

20. The IASB acknowledged that information about the events and conditions that cast significant doubt upon an entity's ability to continue as a going concern is useful to investors and creditors. However, the IASB members were concerned about:

    a) The sensitive nature of going concern disclosures;

    b) Risks of 'self-fulfilling prophecy' – i.e. that disclosure about events or conditions that cast significant doubt about an entity's ability to continue as a going concern would result in a loss of confidence in the entity; and

    c) Concerns over boilerplate disclosures - even with the criteria of magnitude, likelihood and timing, too many events or conditions might be disclosed which would obscure relevant disclosures.

21. At their March 2013 and November 2013 meeting the IASB discussed the IFRIC's proposal and decided not to develop those proposals further, on the basis that the concerns identified were considered significant and could cause issues around investors understanding the going concern basis.

XRB going concern disclosures and staff guidance

22. The COVID-19 pandemic put a greater focus on entities' going concern. It highlighted the diversity in the level of disclosures, with some entities disclosing underlying assumptions supporting its going concern position and the judgements involved, while others provided little disclosure. During the heightened uncertainty, investors, auditors and regulators collectively sought greater clarity and consistency in going concern disclosures.

23. In August 2020, in response to those concerns, the XRB amended NZ FRS 44 and PBE IPSAS 1 and introduced new specific disclosure requirements (to the extent that they are not disclosed under existing NZ IAS 1/PBE IPSAS 1 requirements) for situations when the going concern assessment involved:

    a) The application of significant judgement; and

    b) The consideration of material uncertainties.

24. These amendments aligned accounting disclosure requirements with the audit requirements, as specified in paragraph 19 of ISA (NZ) 570 to provide additional information about the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and where there is a material uncertainty, explicit statement that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

25. To raise awareness of going concern requirements and related disclosure requirements to respond to increasing stakeholder demands, the XRB in 2023 also issued staff guidance *Spotlight on Going Concern Disclosures* for for-profit and not-for-profit entities.

26. This guidance helps preparers decide which information to consider when assessing whether the going concern assumption is appropriate and what to consider when drafting relevant going concern disclosures when they exercise significant judgement and consider material uncertainties and reinforces the disclosures needed when there are risks around the going concern assumption.

Further IASB considerations around going concern

27. In 2021, many respondents to the IASB Third Agenda Consultation (including the NZASB) identified Going Concern as a high priority project.

28. The IASB decided not to add this project to their agenda and in their July 2022 Third Agenda Consultation Feedback Statement explained that the IASB already considered this project in 2013 (through the IFRIC decisions above) and decided not to take further actions. They also pointed out two papers issued by IFAC regarding going concern:

    a) The IFRIC agenda decision Disclosure requirements relating to assessment of going concern (IAS 1) (Jul 2014) highlighting that the paragraph 122 of IAS 1 applies to situation where management concludes that there are events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern but after considering all relevant information, including planned mitigations, concludes that no material uncertainties remains (scenario 2 of the Table 1). This means in such situation, the entity should disclose judgements made in reaching this conclusion.

    b) IFRS educational material Going concern—a focus on disclosure (Jan 2021) supporting consistent application of going concern disclosure requirements and assessment.

29. We understand that the IASB is considering updating the IFRS educational material and may include additional matters around going concern disclosures. However, it is unlikely that the IASB would add project on going concern to amend IAS 1/IFRS 18 into their work agenda in the foreseeable future.

Staff considerations – domestic project

30. To address the concerns noted above, the NZASB could commence a domestic project to amend NZ FRS 44 and PBE IPSAS 1, with an objective to bridge the gap between the accounting and auditing standards, similar to actions taken in August 2020. Potential amendments to the accounting standards could include:

    a) Provide an explanation on what 'going concern' means and positive statement that the going concern basis is appropriate;

    b) Provide a positive statement that no material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern or other sources of doubt have been identified (where relevant); and

    c) Disclose information used by management to support those assessment.

31. We note that paragraphs 112(a) of NZ IAS 1 /127(a) of PBE IPSAS 1 already require the reporting entity to disclose the basis on which the financial statements are prepared, which provides an implicit statement that the management believe that the going concern is an

appropriate basis. Any instance of not considering the going concern assumption to be appropriate is required to be disclosed under paragraphs 25 of NZ IAS 1 /38 of PBE IPSAS 1.

32. Section 201 of the Companies Act 1993 requires all companies to produce GAAP compliant financial statements which must be signed by two directors of the company (or one director if the company only has one director). This means directors have responsibility to ensure the going concern disclosures within financial statements are appropriate in line with the NZ accounting standards, and this will be communicated through the director's signatures on the financial statements.

33. The threshold required to not use going concern as the basis of preparation of the financial statements is set out in the accounting standards and is a relatively high bar around management's intentions and no realistic alternatives. The paragraph 25 of NZ IAS 1[6] states that:

> *"An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so."*

34. Section 135 of the Companies Act 1993 also imposes duties on Director's to avoid reckless trading and carry out business in a manner which will likely create a substantial risk of serious loss to the company's creditors. These responsibilities have also been upheld by the New Zealand Courts, as noted in the Mainzeal case in 2023, which noted that the directors in that case did not appropriately communicate the recoverability of their assets on the balance sheet. This reinforces that directors have duties to ensure information within the financial statements around the on-going operations of the entity are appropriate.

Harmonisation with Australia

35. New Zealand going concern disclosure requirements are not harmonised with Australia, as the Australian Accounting Standard Board (AASB) has remained aligned to the IASB requirement and have not introduced additional going concern disclosures. At this stage, the AASB hasn't intention to amend the going concern disclosures in the Australian accounting standards.

Staff analysis

36. An entity in a 'close call' situation (i.e. when material uncertainties about entity's ability to continue as a going concern remain after considering management actions) is already required to provide additional disclosures in New Zealand (as outlined in Table 1 scenario 4). Those additional disclosures are in line with the [draft] ISA 570 (Revised 2024).

37. Therefore, the greatest risk is present when an entity is a going concern and is in good financial condition and does not have any material uncertainties. These entities only disclose their basis of preparation without any further details (as outlined in Table 1 scenarios 2) or disclose information about significant judgments and assumptions (as outlined in Table 1 scenarios 3). In these situations, the auditor including a positive opinion on an entity's going concern, may be a stronger statement about the appropriateness of the going concern

[6] Paragraph 38 of PBE IPSAS 1 provides similar statement, in the context of PBEs.

assumption than what management themselves include in the financial statement disclosures.

38. The exception-based nature to going concern disclosures within the NZ accounting standards currently allows for users to easily identify outliers and exceptions compared to their expectations that an entity is a going concern.

39. Requiring additional going concern disclosures when there are no material uncertainties could undermine the value of the financial statements when there are going concern issues to be highlighted. The additional disclosures may obscure and distract from other material information and actual risks disclosed.

40. Entities in a good financial condition are likely to follow the paragraph 26 of NZ IAS 1 which states:

> *"When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis."*

41. In line with the requirements above most of the entities assess their going concern based on cash-flow analysis. We note that NZ IFRS 7 *Financial Instruments: Disclosures* already require disclosure of liquidity risks (see box below for more details). As a result, users of entities which are in good financial condition already have information about maturity analysis for financial liabilities and description of how the entity manages their liquidity risk.

Extract from NZ IFRS 7 *Financial Instruments: Disclosures*

Appendix A

Defined terms

…

liquidity risk — The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

…

Liquidity risk

39* An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

42. Additional disclosures would require additional compliance and potentially also additional audit cost for the preparers to ensure additional statements are audited, while additional benefits are limited, as users of financial statements of entities which are in good financial

condition are not provided with new information.

43. Additional disclosures would address the expectation gap around auditor's responsibilities and management's responsibilities around going concern. However, there may be limited benefits for other users of the financial statements, such lenders and institutional investors, who would likely have access to additional specific reporting (bank covenant forecasts and market analysis liquidity ratios) to assist with their decision making and would not likely rely upon going concern disclosures contained within financial statements.

44. Overall, we do not believe that additional going concern disclosures as suggested in paragraph 30 across all financial statements would provide any additional value to the users of the financial statements and that sufficient requirements are already in place to ensure sufficient disclosure of non-standard use of the going concern basis.

Staff recommendations

45. Based on the analysis above we recommend:

    a) **NOT** to commence domestic project on going concern disclosures at this stage; and

    b) Keep monitoring the IASB educational developments around going concern and determine next steps (when relevant).

46. We propose to bring this topic back for the NZASB's consideration in Q3 next year, once the NZAuASB has considered the impact of the final revised version of ISA (NZ) 570 on the New Zealand auditing standards.

47. We recommend the accounting team works together with the assurance team to inform New Zealand reporting entities about the new audit requirements and their potential impact on interaction between the reporting entities and their auditors (e.g. through Need-to-know webinars or updated staff guidance).

Questions for the Boards

Q1. Does the NZASB **AGREE** with the staff recommendations in paragraphs 45-47?

Q2. Does the NZAuASB have any **FEEDBACK** on the staff recommendations in paragraphs 45-47?

Definition of 'material uncertainty' and clarification of 'may cast significant doubt'

48. In the [draft] ISA 570 (Revised 2024), the IAASB introduced a new definition for the concept "Material Uncertainty (Related to Going Concern)" and clarification of the phrase "may cast significant doubt".

49. Paragraph 10 of the [draft] ISA 570 (Revised 2024) defines material uncertainty as follows:

"Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. "May cast significant doubt" is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that unless management's plans for future actions mitigate their effects, the entity may be unable to realize its assets and discharge its liabilities in the

normal course of business and continue its operations for the foreseeable future. (Ref: Para. A5–A6)"

50. Paragraph A6 of the [draft] ISA 570 (Revised 2024) further clarifies that:

    "Plans for future actions may include, for example, that management realizes assets sooner than originally intended or obtains alternative or additional sources of liquidity to support the entity's ability to continue as a going concern (also see paragraphs 26–28). In such circumstances, the timing of the events or conditions giving rise to the uncertainty may also be relevant. For example, the shorter the time period in which management must take action, the more significant the uncertainty may be about the entity's ability to continue as a going concern."

51. The IAASB consulted on the new definitions with the IASB and IPSASB and believes that the proposed definition does not give rise to inconsistencies with recognised financial reporting frameworks, given that the term "material uncertainty" remains undefined by the IFRS® Accounting Standards.[7]

52. The New Zealand respondents to the ED 570 noted that the proposed definitions are consistent with financial reporting frameworks applicable in New Zealand. At the same time, they encourage the IAASB to continue to engage with the IASB and the IPSASB to assure consistency in the meaning of terminology across both reporting and auditing standards.

Staff considerations

53. The audit and assurance team have not heard any concerns about the IAASB's proposed definition of 'material uncertainty' and clarification of 'may cast significant doubt' from the New Zealand constituents. However, these definitions have not been tested with NZ preparers.

54. Our initial analysis is that the proposed definitions should not give rise to issues in applying the NZ accounting standards, given the principles of the going concern basis, and the process entities would need to go through to identify and assess material uncertainties when there are events or conditions which may impact on the appropriateness of the going concern assumption.

55. We have not heard any demand from preparers to introduce these definitions into the NZ accounting standards and we have not heard concerns around preparers assessing what constitutes a material uncertainty or what may cast significant doubt. The current NZ accounting standards allows the use of judgement in determining and assessing material uncertainty and includes requirements for this to be disclosed to users when such matters are identified.

---

[7] Paragraph 25 of NZ IAS 1 and paragraph 38 of BPE IPSAS 1 only require disclosing '*material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern*'. The standards don't define neither the term '*material uncertainty*' nor the phrase '*may cast significant doubt'.*

Staff recommendations

56. We recommend:

    a) at this stage **NOT** take any action regarding the definition of 'material uncertainty, given the current principles and disclosure requirements within the NZ accounting standards; and

    b) Keep monitoring whether the new definitions rise any concerns to preparers.

Questions for the Boards

Q3. Does the NZASB **AGREE** with the staff recommendations in paragraph 56?

Q4 Does the NZAuASB have any **FEEDBACK** on the staff recommendations in paragraphs 56?

Commencement of the period of going concern assessment

57. In the [draft] ISA 570 (Revised 2024), the IAASB proposed to change the commencement date of the period of management's assessment of the entity's ability to continue as a going concern

    a) from *at least twelve months from the* *date* *of the financial statements*;

    b) to *at least twelve months from the* *date of approval* *of the financial statements*.

58. ISA (NZ) 570 already requires the auditor to assess the appropriateness of the going concern assumption for the relevant period, which is at least twelve months from the date of the auditor's current report. Therefore, the IAASB's proposal doesn't propose to change the NZ requirements.

59. However, we note that that there is an inconsistency between the requirements in the audit standards and NZ IAS 1/NZ IFRS 18, which requires the assessment period to be at least, but is not limited to, twelve months from the end of the reporting period.

60. Respondent to ED 570 encouraged the IAASB to continue its efforts in engaging with the IASB to resolve this consistency.

61. The table below provides summary of the current requirements regarding the period of management's assessment of the entity's ability to continue as a going concern:

Table 2 – Period of assessment

New Zealand			IAASB
NZ IAS 1/NZ IFRS 18	**PBE IPSAS 1**	**ISA (NZ) 570**	**[draft] ISA 570 (Revised 2024)**
… at least, but is not limited to, 12 months **from the end of the reporting period.**	… at least, but is not limited to, 12 months **from the approval of the financial report**.	… at least 12 months **from the date of the auditor's current report.**	… at least 12 months **from the date of approval of the financial statements**

IASB position

62. The January 2013 IFRIC proposal to the IASB (mentioned in paragraphs 18-19 of this memo) also proposed to change of the commencement date of the period of management's assessment of the entity's ability to continue as a going concern to the date of the financial report approval. The proposals were not adopted, as the IASB decided not to go ahead with any enhanced going concern disclosures.

63. In the January 2021 publication Going concern – a focus on disclosure the IASB stressed that

    a) Some national regulations require consideration of going concern for 12 months from the date that financial statements are authorised for issue. Considering time periods longer than 12 months is not inconsistent with the requirements in paragraph 26 of IAS 1, which establishes a minimum period, not a cap; and

    b) Paragraph 14 of IAS 10 *Events after the Reporting Period* explains that management's assessment of the use of a going concern basis of preparation needs to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorised for issue.

Staff considerations

64. Resolving the inconsistency noted in paragraph 59 requires developing additional requirements to the NZ IAS 1 and NZ IFRS 18 requirements, which have been directly adapted from IAS 1/IFRS 18. This would require adding additional requirements into FRS 44.

65. However, we note that not all entities in New Zealand are subject to assurance, and there are many Tier-2 entities which do not have any audit or review requirements. As a result, adding additional requirements into FRS 44 may require Tier-2 preparers to perform additional analysis which will not be subject to any assurance.

66. The closely held nature of Tier-2 entities and the relatively shorter period between the end of the financial reporting period and the approval of the financial statements, means Tier-2 stakeholders are unlikely to consider the additional unaudited considerations made by preparers for this additional period to be useful.

67. We also note that the inconsistency between ISA (NZ) 570 and NZ IAS 1 is not a new issue in New Zealand and constituents are already aware of it and deal with this through practical processes. Auditors already established mechanisms and understanding with their clients to overcome this issue, and it is uncommon for entities to not produce cashflow forecasts for several years as part of their going concern analysis and management monitoring processes.

68. As a result, we do not consider any actions are needed on this matter within the NZ accounting standards.

Question for the Boards

Q5. Does the NZASB and NZAuASB have any **FEEDBACK** to the staff considerations in paragraphs 64 - 68?

Appendix

This Appendix provides extracts of relevant going concern disclosure paragraphs from [draft] ISA 570 (Revised 2024), *Going Concern* (version to be approved at the IAASB December 2024 meeting).

Extract from [draft] ISA 570 (Revised 2024), ***Going Concern***

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

34. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and: (Ref: Para. A78–A79)

  (a) State that (Ref: Para. A80–A81)

    (i) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

    (ii) Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

    (iii) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

  (b) For an audit of financial statements of a listed entity, when significant judgements are made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern: (Ref: Para. A82–A83, A89)

    (i) Include a reference to the related disclosure(s) in the financial statements; and (Ref: Para. A73–A76)

    (ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A84–A88)

Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

35. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" and: (Ref: Para. A78–A79, A90–A91)

  (a) Include a reference to the related disclosure(s) in the financial statements; (Ref: Para. A73, A77)

  (b) For an audit of financial statements of a listed entity, describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; (Ref: Para. A84–A88);

  (c) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern;

  (d) State that:

    i. The auditor's opinion is not modified in respect of the matter;

    ii. In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

    iii. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

36. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A78–A79, A90, A92)

    (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);

    (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists and that the financial statements do not adequately disclose this matter;

    (c) Include in the auditor's report a separate section under the heading "Material Uncertainty Related to Going Concern" and:

        (i) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor's report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements;

        (ii) State that:

            a. In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

            b. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

Agenda Item 7.1

Memorandum

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Date: 22 November 2024

To: NZASB Members

From: Alex Stainer

Subject: **Development of a staff for-profit RDR policy**

COVER SHEET

Project priority and complexity

Project purpose	Develop a Reduced Disclosure Regime (RDR) policy to inform the identification of for-profit RDR concessions for disclosure requirements proposed or introduced moving forward.
Cost/benefit considerations	RDR is an important mechanism in the NZ accounting standards framework to ensure costs of disclosure do not outweigh benefits for non-publicly accountable entities. The development of a robust and consistent RDR policy will ensure cost/benefit considerations of proposed/introduced disclosure requirements are addressed in an appropriate and consistent manner.
Project priority	**Medium.** As the Board has made the decision to not adopt IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in New Zealand, for completeness, we need to finalise our own position with respect to addressing RDR concessions moving forward.

Overview of agenda item

Project Status	The staff RDR policy has been drafted, ready for feedback. After feedback has been incorporated into the policy, we will continue to test the policy before seeking support from the NZASB to bring the policy to the XRB Board later in 2025 for approval.
Board action required	Provide FEEDBACK on the proposed staff RDR policy.

Purpose and introduction[1]

1. With the NZASB's recent decision to maintain the current Reduced Disclosure Regime (RDR) and to not adopt IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in New Zealand, there is now further impetus to develop a formal RDR policy. Currently, there is not a formal approach to determining RDR concessions on new disclosure requirements.

2. As seen in the background section (Appendix A), the development of an RDR policy has been on the Board's radar for some time and was part of the XRB Strategic Action Plan 2014–2019. With the conclusion of the IFRS 19 project it reemphasised the need for a formal RDR policy we could apply that would aid a consistent and high-quality approach to our decision making going forward.

3. As has been agreed with the Board in a previous meeting (8 August 2024), we have brought a staff RDR policy for your consideration. In drafting this policy, we have decided to rely on the extensive amount of project work previously done by both the accounting standards team and the Board as part of the historical for-profit RDR project which was jointly undertaken with the AASB. Refer to Appendix A for the background on that project.

4. This memo provides background (Appendix A) to the development of an RDR policy and rationale for the proposed method contained in the drafted policy.

Recommendations

5. The Board is asked to:

    (a) PROVIDE FEEDBACK on the staff RDR policy.

Structure of this memo

6. The remaining sections in this memo are:

    (a) Existing approach;

    (b) Overview of the proposed approach;

    (c) Level of judgement involved;

    (d) Harmonisation with Australia;

    (e) Application to PBE; and

    (f) Exposure of the policy.

Existing approach

7. As noted in the introduction, there has not been a formal approach to determining RDR concessions. In assessing disclosure requirements, harmonisation with Australia has historically been a primary consideration due to the goal of closer economic relations. Upon adoption of the current NZ Accounting Standards Framework in 2012, the Board aligned the relevant RDR concessions of NZ IFRS RDR with those in Australia. In the years that followed (until the AASB developed AASB 1060 *General Purpose Financial Statements – Simplified*

[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 for For-Profit and Not-for-Profit Tier 2 Entities) RDR concessions were therefore jointly considered with the AASB.

8. In terms of the mechanism to identify the RDR concessions, historically, Australia had been using criteria reliant on the principles of the IFRS for SMEs Accounting Standard (IFRS for SMEs) as Tier 2 disclosure principles, whereby;

   (a) where IFRS for SMEs had the same recognition and measurement requirements as in IFRS Accounting Standards, the disclosure requirements for Tier 2 entities should be the same as in IFRS for SMEs, and;

   (b) where the recognition and measurement requirements in IFRS for SMEs did not align with IFRS Accounting Standards, deciding whether the related disclosure requirements in IFRS Accounting Standards should be retained for Tier 2 entities was based on considering whether the information is needed to meet user needs, and whether the benefits of the disclosure for users outweigh the costs of providing the information.

9. Furthermore, the Tier 2 disclosure principles noted that when recognition and measurement requirements in IFRS for SMEs were not the same as in IFRS Accounting Standards, the approach taken when deciding whether to provide an RDR concession should reflect the 'user needs' and 'cost-benefit' principles applied by the IASB in developing disclosures for IFRS for SMEs. This approach reflects the view that users are particularly interested in information about:

   (a) short-term cash flows and obligations, commitments or contingencies, whether or not recognised as liabilities;

   (b) liquidity and solvency;

   (c) measurement uncertainties;

   (d) the entity's accounting policy choices;

   (e) disaggregation of amounts presented in the financial statements; and

   (f) transactions and other events and conditions encountered by such entities.

10. By virtue of harmonisation with Australia, historically, New Zealand RDR concessions were also developed based on the principles described in paragraphs 8 and 9 above. These principles were also key in the development of the proposed RDR policy in the joint XRB/AASB project in 2015-2018.

11. However, in more recent years, due to the development of AASB 1060 for Australian Tier 2 entities and divergence with Australia with respect to Tier 2 disclosures, we have increasingly relied on RDR decisions made on similar disclosure requirements in the past to inform our approach to considering RDR concessions with respect to new standards and amendments. Accordingly, with our decision to not adopt IFRS 19, and the work we undertook in that project to compare disclosure requirements, it has highlighted the need for us to re-explore our own principles being applied.

Overview of the proposed approach

Previously drafted RDR policy

12. With reference to the RDR project in 2015-2018, which saw the completion of a proposed RDR for-profit policy, we have considered the appropriateness of implementing that policy 'as is'. However, we wanted to reflect the possible contribution of IFRS 19 to our process, and to move to an approach where we justify introducing disclosure requirements for Tier 2 entities rather than an approach where we justify introducing a concession.

13. The previously proposed RDR policy was based on the overarching principles of IFRS for SMEs (user needs and cost/benefit) and key disclosure areas the Board developed during the joint project. These key disclosure areas were the foundation of that decision-making framework and informed the rebuttable presumptions that:

    (a) the benefits of providing disclosures that relate to key disclosure areas exceed the costs, or

    (b) the costs of providing disclosures exceed the benefits where the disclosure does not relate to a key disclosure area.

14. These presumptions could be rebutted if specific disclosures were found to add little incremental benefit to users or if the specific disclosures did not add significant additional costs.

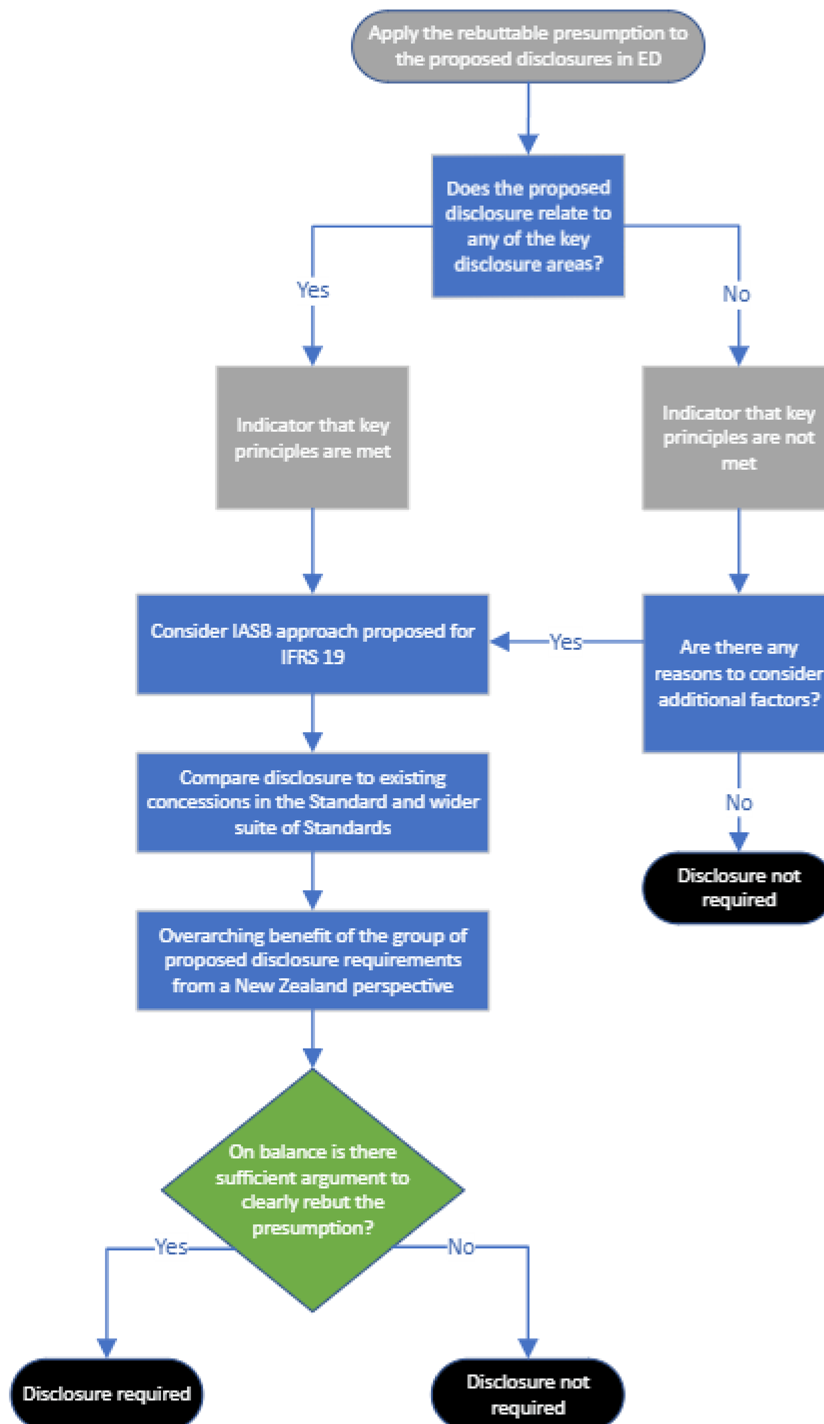
Proposed approach

15. On commencing this project, we intended to use as much of the previously drafted proposed RDR policy that we could, considering the process and rigour that went into formulating that joint policy between 2015-2018. Our proposed approach is very similar to the previously drafted RDR policy. Aside from a couple of adaptations, we have largely used the same decision-making framework and approach.

16. We illustrate this in the diagram below (which has been replicated from the draft policy in agenda item 7.2)

Do proposed disclosure requirements meet the key principles?

(1) Meets needs of users of Tier 2 financial statements; and
(2) Benefits exceed costs



17. We propose starting with a rebuttable presumption that for any new disclosure requirement a RDR concession will be granted.

Our rationale for the rebuttable presumption

18. Upon reflection of the previously proposed policy, we thought the general form was useful but could be improved by starting from a position that all disclosure requirements receive a concession for Tier 2 entities. We were concerned the method under the previously proposed RDR policy would make it more difficult to justify introducing concessions (unless there were significant additional costs).

19. In support of this, the AASB in their Basis of Conclusions for AASB 1060 noted in paragraph BC21 that while the previously proposed RDR policy 'was based on clear disclosure principles, the cost-benefit analysis was difficult to apply in the context of disclosures and the top-down approach resulted in too many disclosures being retained, as removal was difficult to justify with the Key Disclosure Areas'.

20. We consider that adapting the previously proposed policy in this manner is more consistent with the overall aim to reduce unnecessary cost for Tier 2 entities, and the key principles we are trying to reflect; i.e. justifying that the information provided will meet users' needs and the benefits of the information will outweigh the costs in providing the information in order to require the disclosure for Tier 2 entities (as opposed to justifying that costs outweigh the benefits in order to exempt Tier 2 entities from a disclosure).

21. The suggested change in approach also reflects a general understanding of the Tier 2 user base. We understand that these users have less reliance on the financial statements for decision making purposes and are often in positions to request information they need. Accordingly, we felt it was reasonable to adapt the approach in this way and therefore have proposed a rebuttable presumption to this effect.

22. The overarching user needs and cost benefit criteria from IFRS for SMEs (similar to the previously proposed RDR policy from 2015-2018) will continue to form the basis of the key principles for identifying RDR concessions. These key principles become the test as to whether the initial presumption can be rebutted – that is, the presumption that an RDR concession should be granted is rebutted if:

    (a) the information provided by the disclosures in the financial statements meets the needs of users of Tier 2 financial statements; and

    (b) the benefits of the disclosures for these users exceed the costs for Tier 2 entities to provide them.

23. Key disclosure areas (developed during the RDR project 2015-2018) will be used to help practically determine when a disclosure may meet the key principles. We propose using these key disclosure areas as an indicator of when the initial presumption may be rebutted. The key disclosure areas include:

    (a) Liquidity and solvency

    (b) Transactions and other events significant or material to understanding the entity's operations as represented by the financial statements, including:

        (i) the nature of the transaction or event that makes it significant or material to the entity;

        (ii) associated risks specific to a transaction or event;

(iii) associated accounting policy on recognition or measurement specific to a transaction or event;

(iv) associated significant estimates and judgements specific to a transaction or event;

(v) commitments and contingencies;

(vi) impairment;

(vii) related parties; and

(viii) subsequent events.

Why use Key Disclosure Areas and why use them as indicators?

24. The key disclosure areas proposed in this policy originate from the previously proposed RDR policy. These disclosure areas were informed by the results of research and consideration into user needs specifically for Tier 2 entities[2]. We do not believe that there is a need to revisit the basis for formulating these key disclosure areas, given there has not been a major change in the entity types that would be subject to Tier 2 nor any other environmental factors since the time of that analysis.

25. We acknowledge that these key disclosure areas may not necessarily match or be reflected in existing RDR concessions within NZ IFRS, and may at times mean we need to consider consistency within our Standards when proposing new RDR concessions (see section: *Why Input from existing RDR concessions within NZ IFRS?*).

26. However, the key disclosure areas are a practical expedient to the cost/benefit analysis for the disclosure requirement, and as such, are useful as a starting point to practically assess whether the key principles are met.

27. The key disclosure areas will be used to give an indication of whether the key principles are met, rather than as a rebuttable presumption that the key principles are met or not met.

28. Based on the AASB's view (noted in paragraph 19), it appears the previously proposed policy was too rigid, and made it hard to justify removing disclosures, suggesting that there were circumstances that merited a concession, but the concession was unable to be given under that policy.

29. By using these key disclosure areas as an indicator, it makes the policy more flexible, and open to analysis on the specific impacts of the proposed disclosure requirements before confirming a conclusion.

30. Where a key disclosure area is present, additional inputs/factors must be used to analyse whether the indicator is supported. These include:

(a) Disclosure requirements proposed for IFRS 19 (Appendix B);

(b) Precedent of current RDR concessions across NZ IFRS; and

[2] For more information on this analysis, please see Appendix C and supporting paper *Staff Issues Paper RDR Principles June 2015*

(c) Overarching benefit of the group of disclosure requirements specific to Tier 2 New Zealand entities.

Rationale for the use of other inputs

Why input from IFRS 19 (Appendix B)?

31. Going forward, in IASB EDs the IASB will also propose disclosures requirements for IFRS 19. The IASB leverages the broad principles contained in IFRS for SMEs to determine the disclosure requirements for IFRS 19. These principles have informed the key disclosure areas developed by the NZASB in 2015 as part of its joint RDR project with the AASB. Accordingly, the cost-benefit analysis the IASB completes as part of developing the disclosure requirements for IFRS 19 will be useful for considering appropriate disclosures for New Zealand (noting that IFRS 19 has a different scope to the Tier 2 population in New Zealand).

Why input from existing RDR concessions within NZ IFRS?

32. We wanted input from existing RDR concessions as consistency is important, and at the least, to ensure we are considering why a disclosure should be or not be consistent with existing RDR concessions. There are some significant precedents set within and across NZ IFRS that may not be consistent with the key disclosure areas (such as existing concessions on disclosures of different types of risks), and this input is important in ensuring that we are purposeful about any deviation away from precedent already set.

33. The application of the previously proposed RDR policy resulted in proposed (but never finalised) changes across several standards. Applying the proposed new RDR policy will provide an opportunity for us to question whether a new disclosure should be required for Tier 2 entities, considering the key disclosure areas, as well as previous RDR decisions. At the same time, applying the new policy will also give us the opportunity to question the merit of existing RDR concessions

34. As part of the policy, we are suggesting that, at the commencement of a project which amends an existing NZ IFRS, we identify whether there is inconsistency between any current RDR concessions in that standard and the key disclosure areas and determine whether further action is appropriate.

Why overarching benefit from a NZ perspective?

35. With the simplification of using key disclosure areas (to broadly indicate where a disclosure will result in information that meets user needs and benefits outweigh costs), we wanted to ensure that we step back and separately focus on the New Zealand perspective of the group of proposed disclosure requirements. The aim of this input is to ensure we can provide a clear articulation of the benefit a disclosure/group of disclosures will have for Tier 2 entities in New Zealand.

36. Including this input also provides flexibility when there is uncertainty of the benefit of the disclosure in the New Zealand and Tier 2 environment.

37. Staff will then need to make one of the following conclusions:

(a) If there is no key disclosure area included in the disclosure requirement (no indicator), the key principles (relating to user needs and cost/benefit) are not met and the presumption that an RDR concession should be provided is not rebutted.

(b) If there is a key disclosure area included in the disclosure requirement (indicator), and it is clearly supported by the additional inputs/factors set out in the proposed new RDR policy, then the key principles are met and the presumption is rebutted.

(c) If there is a key disclosure area included in the disclosure requirement (indicator), but it is not clearly supported by the additional inputs/factors set out in the proposed new RDR policy, then the key principles are not met and the presumption is not rebutted.

Timing of application of the policy

38. The policy can be applied in line with our existing practice. For example:

(a) When developing new domestic standards, proposed RDR concessions are exposed for comment at the same time as the other proposals in the ED.

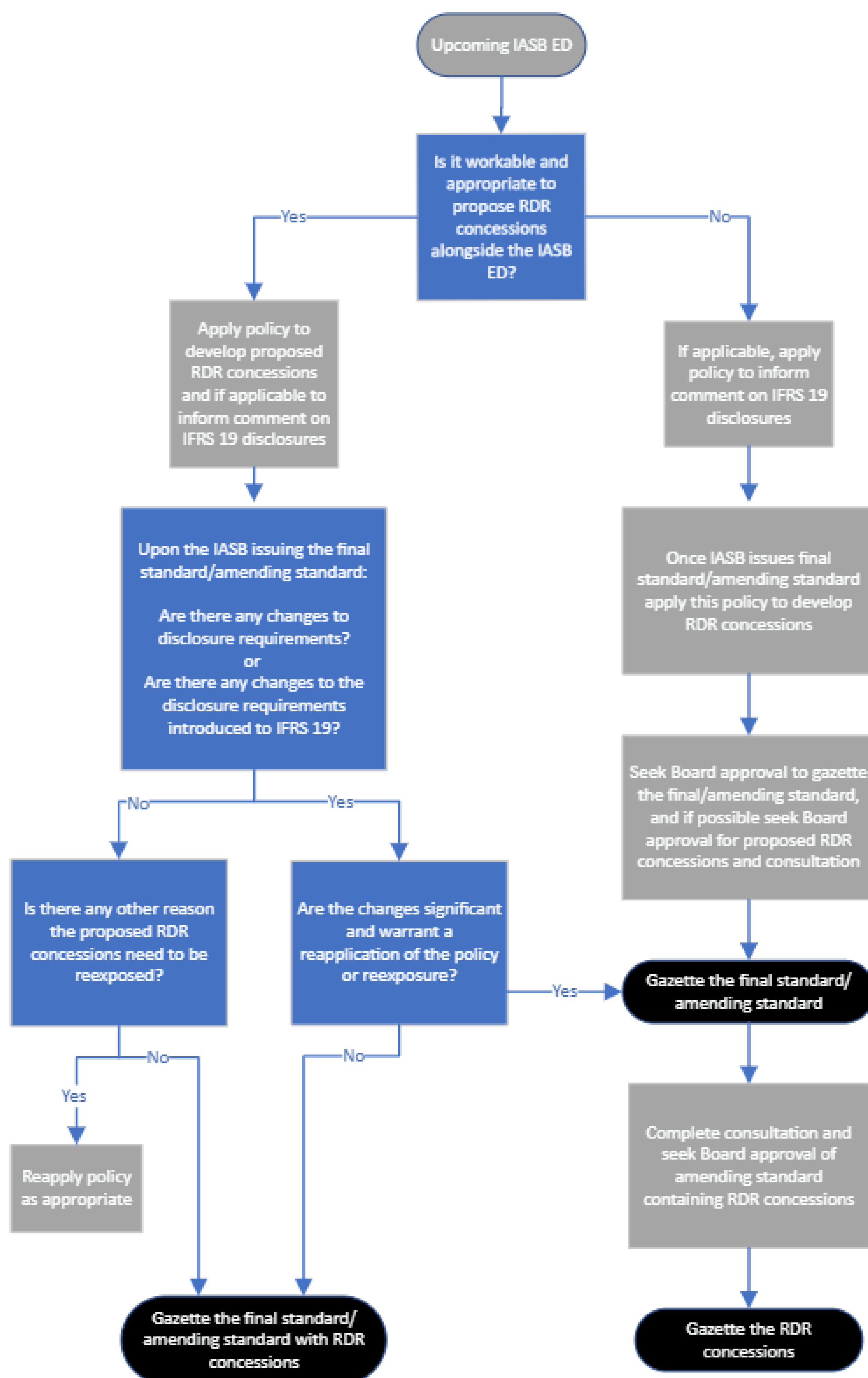
(b) For IASB EDs of new/amending standards, the development of proposed RDR concessions commences after the new/amending standards have been gazetted, and then approved and consulted and gazetted separately.

39. However, for IASB EDs we suggest that where possible the policy is applied in line with the issue of the IASB ED. This is in order to:

(a) influence the proposed disclosure requirements for IFRS 19 and inform our comment letter. We consider that it is important to comment on proposed amendments to IFRS 19 in case it is ever decided that New Zealand should adopt or align with IFRS 19 in future.

(b) take advantage of potential efficiencies in combining our processes with the exposure and consultation of the IASB ED in New Zealand (i.e. one consultation, one gazetting of the amending standard). Whether this is possible may depend on several factors such as the timing of the IASB ED being issued, the extent of the proposals, and possible timing of Board approval. This approach does also come with the risk that the disclosure requirements may change from the ED and result in rework and re-exposure.

40. The diagram below illustrates this process.


Upcoming IASB ED
Is it workable and appropriate to propose RDR concessions alongside the IASB ED?
Yes
No
Apply policy to develop proposed RDR concessions and if applicable to inform comment on IFRS 19 disclosures
If applicable, apply policy to inform comment on IFRS 19 disclosures
Upon the IASB issuing the final standard/amending standard:
Are there any changes to disclosure requirements?
or
Are there any changes to the disclosure requirements introduced to IFRS 19?
Once IASB issues final standard/amending standard apply this policy to develop RDR concessions
Seek Board approval to gazette the final/amending standard, and if possible seek Board approval for proposed RDR concessions and consultation
No
Yes
Is there any other reason the proposed RDR concessions need to be reexposed?
Are the changes significant and warrant a reapplication of the policy or reexposure?
Yes
Gazette the final standard/ amending standard
No
Yes
No
Reapply policy as appropriate
Complete consultation and seek Board approval of amending standard containing RDR concessions
Gazette the final standard/ amending standard with RDR concessions
Gazette the RDR concessions

Level of judgement involved

41. We acknowledge that there remains a significant level of judgement in the use of this proposed policy, despite the use of key disclosure areas to indicate when information meets user needs and benefits may outweigh costs. Judgement is required when applying this framework, as the overarching principles of user needs and cost-benefit should be considered when analysing the inputs and making a conclusion overall.

42. Part of the value of the policy, despite the judgement involved, is the consistency in ensuring the same process and the same considerations are worked through each time RDR concessions are considered. Inherent in any decision-making framework are circumstances outside of the norm, and we have provided in the policy flexibility to ensure there is discretion to appropriately handle these circumstances, and this discretion will always to some degree require a level of judgement.

Harmonisation with Australia

43. 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. Harmonisation between Australia and New Zealand had always been a priority of both the AASB and XRB, on the basis that it was helpful to reduce the costs for entities operating trans-Tasman and encouraged closer economic ties.

44. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis, and as a result, we have been diverged in terms of disclosure requirements for Tier 2 entities for several years. We acknowledge that implementing this new policy will continue this path of divergence, but it also allows us more flexibility to identify appropriate concessions for our Tier 2 entities specific to New Zealand.

45. We are also proposing to address RDR concessions (in some circumstances) much earlier in the process than what we have traditionally done. Traditionally, we have waited until an IASB new or amending standard is issued in New Zealand before embarking on our analysis and consultation on proposed RDR concessions. Under this drafted policy, staff may apply the policy at the release (or before) of the IASB ED and, where appropriate, consult on proposed RDR concessions at the same time the consultation is open for the ED (albeit depending on several factors). On this basis, it also limits our opportunity to align with Australia on RDR concessions.

46. We suggest that staff check in with the AASB on an informal basis to understand their considerations regarding Tier 2 disclosure requirements. However, the main purpose in this exercise would be as a check to aid our analysis, rather than as a formal input for the policy (similar to our existing approach today).

Application to PBE

47. During the development of the suite of PBE Standards for public sector PBEs in 2012, the Board approved disclosure concessions for public sector PBEs that are eligible for and elect to

apply Tier 2 PBE Standards. Those disclosure concessions approved in the PBE Standards are substantially aligned with those for Tier 2 for-profit entities for similar transactions. Although the Board agreed with this approach to identify the initial set of RDR concessions for public sector PBEs, the Board requested that staff develop a policy on identifying such concessions for both public sector and not-for-profit PBEs. Upon commencing the for-profit RDR project in 2015, the Board decided to wait until the for-profit RDR policy was completed before recommencing the PBE RDR project. Once the scope of PBE Standards was expanded to not-for-profit PBEs, the RDR concessions that had been introduced for Tier 2 public sector PBEs also became available to not-for-profit PBEs.

48. As part of drafting the policy set out in this agenda item, we have considered the application to PBEs in New Zealand. We note that the previously proposed RDR policy (as part of the joint project 2015-2018) was specifically drafted for New Zealand Tier 2 for-profit entities, while for Australia the relevant entities comprised for-profit private sector entities that do not have public accountability, not-for-profit private sector entities, and public sector entities (whether for-profit or not-for-profit).

49. While our initial view is that users of Tier 2 PBE financial statements are unlikely to need substantially different disclosures compared to users of financial statements of Tier 2 for-profit entities, we have proposed that this policy is only formally applicable to for-profit entities at this time. We will discuss the development of a PBE RDR policy at a future meeting.

Exposure of the policy

50. We note that the previous RDR policy document was exposed to New Zealand stakeholders for consultation in 2018. This policy was applied to all disclosure requirements across NZ IFRS, including disclosure requirements that already had RDR concessions. This meant proposed changes in Tier 2 disclosure requirements across multiple standards, and so the impact of this policy was wide. Exposing the policy therefore helped stakeholders understand the rationale for the changes being suggested across the suite of standards.

51. Despite this precedent, we do not consider that the drafted policy in this agenda item merits exposure to wider stakeholders for the following reasons:

    (a) We have proposed that this RDR policy is generally applied on a 'go forward' basis, rather than applying it to existing disclosure requirements[3]. This means the impact of this policy is limited to new proposed disclosure requirements The fact that we are not proposing to revise all existing disclosure concessions is an important distinction to the application of the previously proposed policy, and this lessens the relevance of exposing it to the wider public.

    (b) Given there will be separate consultation on proposed RDR concessions, we consider it more useful for stakeholders to continue to comment and engage with the individual

[3] However, we have provided for an exception where upon commencing a project, staff will revisit existing disclosure concessions of the applicable standard to understand whether there is significant inconsistency with this policy before making a recommendation on further action.

rationale for the proposed RDR concessions as and when such concessions are proposed, rather than commenting on a standalone policy.

Questions for the Board

Q1. Does the Board have any FEEDBACK on the contents of this memo or the staff RDR policy?

Next steps

52. Once we have incorporated Board feedback into the RDR policy, we plan to continue to trial the policy for new upcoming disclosure requirements over the first half of 2025. After this period, we will reflect on how the policy is working in practice and reconsider whether any further testing or adjustments are required. We then plan to seek Board support for the policy to be brought to the XRB Board later in 2025 for approval.

Attachments

Agenda item 7.2: Staff RDR Policy

Supporting papers

Agenda item 7.5: NZASB ED 2017-1 RDR policy

Agenda item 7.6: Cover Memo RDR August 2017

Non-public supporting papers

Agenda item 7.7: 2014 draft PBE RDR policy

Appendix A

Background

For-profit background

Differential reporting has been in place in New Zealand since 1994 and provided relief from some financial reporting requirements for non-publicly accountable entities.

The NZ Accounting Standards Framework (ASF) became effective for for-profit entities in 2012. The ASF included a tier structure for reporting entities. Under this tier structure, for-profit entities in Tier 1 report in accordance with the full requirements of NZ IFRS, whereas for-profit entities in Tier 2 report in accordance with NZ IFRS RDR, i.e. the same recognition, measurement and presentation requirements as Tier 1 entities, but with disclosure concessions (similar requirements apply for PBEs in Tier 1 and Tier 2, albeit with reference to PBE Standards and PBE Standards RDR). By contrast, the previous differential reporting standards included not only disclosure concessions, but also recognition, measurement and presentation concessions for eligible entities.

When RDR concessions for Tier 2 entities were first introduced, the Board at the time had no input into the principles applied for determining RDR concessions (based on IFRS for SMEs), and the RDR concessions were identical to Australia in order to aid closer economic relations in line with the principles in the agreement *Joint Statement of Intent: Single Economic Market Outcomes*, signed by the Prime Ministers of Australia and NZ in 2009.

Following the introduction of the NZ Accounting Standards Framework, many of the companies that would qualify to apply RDR were applying the differential reporting framework. Differential reporting was continued until the legislation removing the reporting requirements for smaller companies was enacted. The financial reporting standards that contain the differential reporting concessions were withdrawn for reporting periods beginning on or after 1 April 2015.

In 2015, a review of RDR was initiated by the AASB in response to constituents' concerns about the complexity and effectiveness of the current financial reporting framework in Australia and to bring about some meaningful reform to that framework. Given the economic agreement signed in 2009, the AASB and XRB decided that both Boards should develop an RDR policy for for-profit accounting standards jointly.

Over 2015 and 2016, research was undertaken and a draft RDR for-profit policy and decision-making framework was jointly drafted.

In an exposure draft in 2017, XRB and AASB staff analysed the current RDR concessions across the for-profit suite of accounting standards. The approach in 2017 saw XRB and AASB staff revisit all disclosures in each standard and whether the proposed RDR policy developed during this project would alter the RDR concessions in the standards. Overall, there was a range: several standards needed significant change, while a few were acceptable as is.

On the basis of feedback received from stakeholders over the proposed policy and changes to existing concessions, it was intended that this RDR project would progress. However, the AASB decided to defer on the basis of:

(a) the issue of the IASB's revised Conceptual Framework for Financial Reporting in May 2018; and
(b) the AASB's decision to reform the Australian Financial Reporting Framework and to propose removing the ability for entities to prepare special purpose financial statements (SPFS) when required to comply with Australian Accounting Standards (AAS) by legislation or otherwise.

In February 2019 the AASB decided to develop a new Tier 2 disclosure standard, rather than proceeding with the joint AASB/NZASB RDR project. In response the XRB also decided to defer any decision until after the targeted review of the NZ Accounting Standards Framework was completed in 2019.

Upon completion of the review, the NZASB considered whether to harmonise RDR with AASB 1060 or to wait for the IASB to develop an ED on Subsidiaries that are SMEs (developed into IFRS 19 *Subsidiaries without Public Accountability: Disclosures).* The NZASB made the decision to wait for the IASB to complete their project and to accept there would be no harmonisation with Australia in the short term. The IASB have now concluded the IFRS 19 project, and the NZASB have decided to instead maintain the current RDR, and accordingly revisit the development of a formal policy for identifying RDR concessions.

PBE background

During the development of the suite of PBE Standards for public sector PBEs, the Board approved disclosure concessions for public sector PBEs that are eligible for and elect to apply Tier 2 PBE Standards. Those disclosure concessions approved in the PBE Standards are substantially the same as those for Tier 2 for-profit entities that are eligible for and elect to apply Tier 2 for-profit accounting standards (that is, NZ IFRS RDR). Although the Board agreed with this approach to identify the initial set of RDR concessions for public sector PBEs, the Board requested that staff develop a policy on identifying such concessions.

At the August 2013 meeting, the Board considered an initial draft of a policy for determining RDR concessions for all PBEs. The Board expressed the view that the policy should more clearly explain how user needs and cost-benefit considerations would influence the identification of RDR concessions for PBEs.

At the March 2014 meeting the Board confirmed that a policy should be drafted based on the principles of user needs and cost-benefit. At the August 2014 meeting, feedback was received on a draft policy.

As the Board began undertaking a for-profit RDR policy in 2015, the PBE RDR project was delayed awaiting the completion of the for-profit RDR policy.

Appendix B

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

IFRS 19 is a newly issued standard by the IASB aimed at simplifying the financial reporting process for eligible subsidiaries. Released in May 2024, IFRS 19 allows these subsidiaries to apply reduced disclosure requirements compared to other IFRS Accounting Standards. This standard is designed to reduce the costs and complexity of preparing financial statements while maintaining their usefulness for users.

The introduction of IFRS 19 and the principles it was based upon prompted the consideration of whether this Standard could be adopted for Tier 2 for-profit entities in New Zealand[4]. While the NZASB decided to retain the current RDR framework, it was decided that the consideration of IFRS 19 disclosure requirements would be one of the inputs into decisions on future RDR concessions.

The following paragraphs in the Basis for Conclusions of IFRS 19 summarises the IASB approach to determining applicable disclosure requirements.

BC 33 … In developing the Exposure Draft and then IFRS 19, the IASB was guided by the six broad principles it used for the disclosure requirements in the *IFRS for SMEs* Accounting Standard:

- users of the financial statements of eligible subsidiaries are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not they are recognised as liabilities.
- users of the financial statements of eligible subsidiaries are particularly interested in information about liquidity and solvency.
- information on measurement uncertainties is important for eligible subsidiaries.
- information about an entity's accounting policy choices is important for eligible subsidiaries.
- disaggregations of amounts presented in eligible subsidiaries' financial statements are important for an understanding of those statements.
- some disclosures in IFRS Accounting Standards are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical eligible subsidiaries.

BC38 The IASB confirmed that applying the principles described in paragraph BC33 was important and noted that if it had started with IFRS Accounting Standards, instead of with the *IFRS for SMEs* Accounting Standard, and applied these principles to the disclosure requirements, it arguably would have resulted in the same or similar proposals to those set out in the Exposure Draft….

BC39 …. The IASB also confirmed that in developing the reduced disclosure requirements it applied the principles and assessed costs and benefits. For the development of IFRS 19, these costs and benefits are assessed based on the needs of users of the financial statements of eligible subsidiaries (as a subset of SMEs).

As the approach of the IASB leverages the broad principles contained in IFRS for SMEs, the cost/benefit analysis the IASB completes as part of developing the disclosure requirements for IFRS 19 should be considered when determining appropriate disclosures for NZ Tier 2 for-profit entities. However, as IFRS 19 assesses costs and benefits based on the users of the financial statements of eligible subsidiaries, we must be aware when considering these that our Tier 2 entities are not just eligible subsidiaries but also contain large closely held companies that are not subsidiaries, and as a result we have a different profile of entities to consider.

New disclosures proposed in future IASB EDs will be considered for inclusion in IFRS 19 by the IASB in the same ED. The NZASB has decided that in future it may reconsider the appropriateness of

[4] The XRB position statement on IFRS 19 - [Update for Tier 2 FP entities - IFRS 19 (July 2024)]

incorporating IFRS 19 into New Zealand for-profit standards if and when the IASB reconsiders the scope of IFRS 19. Therefore, it is important that we consider and comment to the IASB on proposed disclosures for IFRS 19 as part of our response to future IASB EDs.

Appendix C

Excerpt from a June 2015 Board Paper:*Staff Issues Paper RDR Principles June 2015*

Information needs of users of Tier 2 entities' financial statements

Outreach undertaken in New Zealand

Many of the entities that qualify to apply RDR in New Zealand are not required to lodge their financial statements with a regulator.

NZASB staff met with staff from the Financial Markets Authority (FMA), the entity responsible for regulating the capital markets and financial services in New Zealand, and also sought feedback from the banking sector.

Banks are interested in information about:

(a) shareholder loans and transactions with associated persons;

(b) the split between current and long-term debt; and

(c) the breakdown of equity (which is requested if necessary).

The information requirements of the FMA and the banking sector are consistent with the information requirements of the Australian constituents that use the financial statements of Tier 2 entities.

Therefore, the following paragraphs (discussing the outreach undertaken in Australia) are relevant to the analysis in this paper

Outreach undertaken in Australia

1. Bankers have indicated the following.

(a) Their clients use a range of business vehicles to operate their businesses, with convoluted structures extremely common.

(b) Where their lending decisions are based on financial statements, more emphasis is placed on receiving quickly turned-around interim management accounts. Annual financial statements are sometimes used for their confirmatory value. General purpose financial statements are rare. Although audited financial statements are useful because they provide an independent opinion, they are not necessarily needed annually.

(c) Where debt is secured by cash flows, more reliance is placed on projected cash flows provided by management. Where debt is secured by assets, more reliance is placed on the statement of financial position and accompanying notes as they contain more information about assets available for security, debt and debt repayment terms. The latter is more typically the case for 'top end' clients.

(d) Of particular importance is:

   (i) a breakdown of expenses affecting operating profit (for example, depreciation and interest), in particular the link between the depreciation of non-current assets and the repayment terms of the funding of those assets where they are not the same;

   (ii) information about shareholder transactions and intra-group transactions (that is, related party transactions);

(iii) repayment terms and conditions of debt; and
(iv) a more detailed breakdown of the items disclosed in the statement of cash flows.

2. Specialist practitioners noted the following.

(a) Many clients tend to keep up-to-date records of their bank accounts but rely on their accountants to provide financial statements.
(b) When trying to help clients there is greater focus on the requirements of the Corporations Act 2001 regarding the keeping of accounting records rather than the information required under accounting standards.

3. Business valuers whose engagement experience includes valuations used (i) in shareholder buyout negotiations, including family court matters, (ii) in granting of shares to senior employees, and (iii) for taxation reasons, indicated the following.

(a) The balance sheet approach to valuation is typically used (as the primary approach or as a secondary approach) as it profiles the business. Therefore, access to financial statements is important. General purpose financial statements are rare, however, Tier 2 reporting has been observed. Audited financial statements are preferred as they provide an independent opinion. Business valuers have access to management reports and tax returns, effectively any type of record including the general ledger, and direct access to owners/management.

(b) In family court matters, detailed information needed may not always be found in the financial report.

(c) Of particular importance is:

(i) related party information;

(ii) the accounting policy notes on expensing including depreciation methods, rates, expensing of small assets, and work-in-progress as this information is used to adjust the balance sheet;

(iii) information that allows an assessment of liquidity and solvency, as this information informs the approach to take to adjusting the balance sheet. This information is also used to test debt covenants;

(iv) information that allows the business valuer to apply a valuation multiple such as a multiple of EBITDA; and

(v) information about cash balances and cash flows.

4. Private equity investors focused on large and small proprietary limited companies, with the purpose of taking a majority investment, indicated the following.

(a) Lodged financial statements are used and they form a significant input to the 'pre-approach' when seeking potential targets and preparing further information requests of the target entity as part of the initial offer and due diligence stages. Some are general purpose financial statements and some do follow RDR. Audited financial statements are

preferred as they provide an independent opinion. On taking a majority investment private equity investment firms will be represented on the board of directors. Therefore, during investment negotiations and due diligence stages and after taking a majority investment, private equity investment firms have access to information provided by management which is viewed as very important given the financial statements are a snapshot at a point in time.

(b) In a hostile takeover, more information is sourced from the target's financial report.

(c) Of particular importance is:

  (i) related party information;

  (ii) comparability between entities;

  (iii) information that allows the private equity firm to apply a valuation multiple such as a multiple of EBITDA;

  (iv) information about segments and intangible assets; and

  (v) information about cash balances and cash flows.

5. Funders of not-for-profit entities that make grants to fund charitable organisations indicated the following.

(a) Financial statements are used. Some are general purpose financial statements and some do follow RDR and there is a preference that they are audited. The funders have direct access to management which they consider is very important. Comparability is not important and they do not tend to use the financial instrument note disclosures. They consider reporting of service performance by charities is useful information.

(b) Of particular importance is:

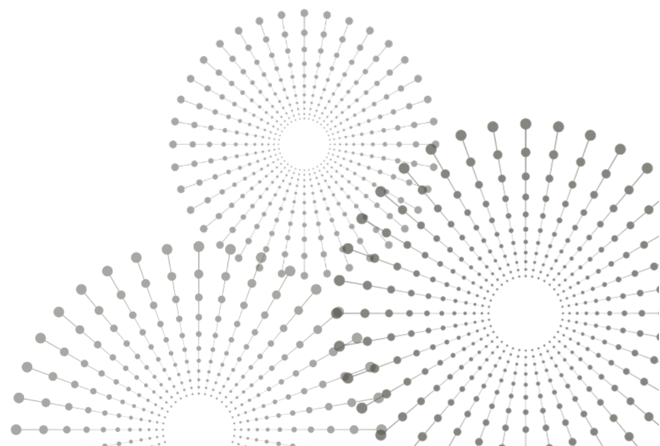
  (i) related party information. It is important for funders to be aware when charitable organisations are sending money to related for-profit entities;

  (ii) information about entity sustainability/going concern. For example, cash balances and cash flows. Going concern can be a big issue for charities and funders are very interested in information about the funding and sustainability of grantees; and

  (iii) revenue breakdown between grants, donations and government funding

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Staff Policy: Developing RDR Concessions for For-Profit Tier 2 Entities



December 2024

Contents of this policy

This policy includes the following sections:

1) Purpose and introduction
2) Scope
3) Policy statement
4) Foundation and key principles
5) Decision-making framework
6) Procedures
7) Basis for conclusions
8) Consultation
9) Responsibilities
10) Appendix A – completing the analysis
11) Appendix B – operational guidance

Purpose and introduction

1. The current New Zealand Accounting Standards Framework provides that Tier 1 entities must prepare financial statements in accordance with NZ IFRS in the for-profit sector and PBE Standards in the public and not-for-profit sectors. Unlike many 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, and are often less than, the needs of users of a Tier 1 entity's financial statements. Thus, if the disclosure requirements for Tier 1 and Tier 2 entities were the same, it would result in unnecessary costs for Tier 2 entities. Tier 2 entities are therefore currently subject to the Reduced Disclosure Regime (RDR) which provides concessions to disclosure requirements within NZ IFRS and PBE Standards.

2. This policy provides a standardised approach for developing RDR concessions for for-profit Tier 2 entities. Although judgement is required in applying this policy, it is designed so that different individuals should generally reach similar conclusions about the disclosure requirements for Tier 2 entities.

Scope

3. This policy outlines the general principles and procedures for developing RDR concessions for Tier 2 entities and will be applied whenever:

   (a) An IASB Exposure Draft (ED) for a new or amending standard is issued and includes proposed disclosure requirements.

   (b) the IASB issues a final new or amending standard that includes disclosure requirements (if those disclosure requirements are amended from the ED).

   (c) a for-profit domestic project is commenced and a domestic ED is being developed that includes disclosure requirements.

4. The approach for developing RDR concessions for the PBE sector will be outlined in another document.

5. This policy is intended to be applied only to future disclosure requirements. Existing RDR concessions will not be revisited using this policy unless agreed in individual circumstances with the NZASB.

Policy Statement

6. The RDR concessions developed will offer relief from disclosure requirements where the information is not necessary for meeting the needs of users of the financial statements of for-profit Tier 2 entities, or where the benefits do not outweigh the costs of providing the disclosures.

7. Staff will follow the specific procedures and due process outlined in this and wider XRB policies to ensure RDR concessions are developed to a high quality and in a consistent manner for for-profit Tier 2 entities.

8. The procedures undertaken will be based on the key principles stated in this policy.

Foundation and key principles

9. RDR concessions will be granted solely for disclosure requirements of full NZ IFRS and PBE Standards. Recognition, measurement and presentation requirements of full NZ IFRS and PBE Standards shall always be maintained, and no RDR concessions will be developed for these requirements.

10. The key principles for identifying where a disclosure requirement should be retained is whether:

    (a) the information provided by the disclosures in the financial statements meets the needs of users of Tier 2 financial statements; and

    (b) the benefits of the disclosures for these users exceed the costs for Tier 2 entities to provide them.

11. Staff shall complete the procedures in this policy commensurate to the level of applicability the proposed disclosures will have to for-profit Tier 2 entities in New Zealand.

Decision-making framework

12. This section outlines the decision-making framework staff shall use when analysing proposed disclosure requirements contained within a new or amending standard to determine whether to provide RDR concessions. Staff shall use this approach to identify whether the proposed disclosures reflect the key principles in paragraph 10.

13. The general approach taken shall, at minimum, include the following:

    (a) Understand the disclosures and its intent

    (b) Apply a rebuttable presumption that proposed disclosure requirements should be granted a RDR concession, and consider whether this presumption is rebutted based on the considerations below.

    (c) Identify whether the proposed disclosure requirements relate to the following key disclosure areas:

        (1) Liquidity and solvency;

        (2) Transactions and other events significant or material to understanding the entity's operations as represented by the financial statements, including:

            (i) the nature of the transaction or event that makes it significant or material to the entity;

            (ii) associated risks specific to a transaction or event;

            (iii) associated accounting policy on recognition or measurement specific to a transaction or event;

(iv) associated significant estimates and judgements specific to a transaction or event;

(v) commitments and contingencies;

(vi) impairment;

(vii) related parties; and

(viii) subsequent events.

(d) Where applicable, consider additional factors:

(i) the proposed disclosure requirements of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*[1]*;* and

(ii) Precedent set by existing RDR concessions within the Standard and wider suite of Standards

(iii) Overarching benefits of the group of proposed disclosure requirements from a New Zealand specific perspective

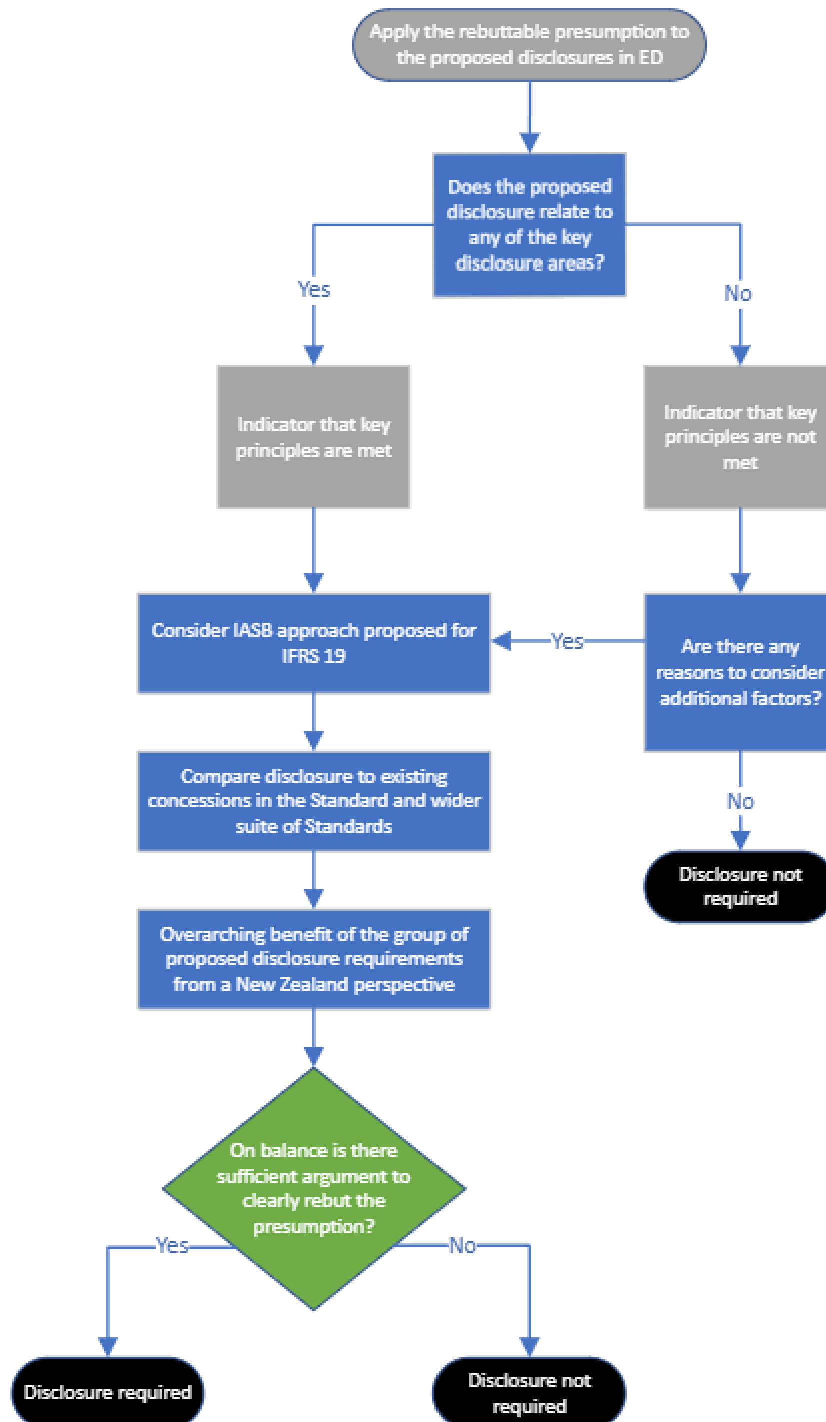
(e) Conclude on the merits of the disclosure requirements and whether on balance the disclosure meets the key principles in this policy[2] - if the key principles are met, the disclosure is be retained for Tier 2 entities.

14. Diagram 1 outlines this process.

[1] See Appendix C for an overview of this Standard and why it forms an input for our decision making on RDR concessions);

[2] Staff may also consider informally consulting with the Australian Accounting Standards Board where appropriate.

Diagram 1



Rebuttable presumption

15. Staff shall take an initial position that all proposed disclosure requirements should not be required for Tier 2 entities until there is clear support (based on considering the indicators in this policy) that the key principles are met.

16. Accordingly, staff shall start with applying the rebuttable presumption that a proposed disclosure requirement does not meet the key principles of this policy and should be granted a RDR concession applicable for Tier 2 entities.

Indicators – Key Disclosure Areas

17. The rebuttable presumption shall be tested by determining whether key disclosure areas outlined in this policy are present within the disclosure requirement. Key disclosure areas indicate whether the disclosure requirement meets the key principles.

18. Where a key disclosure area is present there is an indicator that the key principles are met, and the proposed disclosure requirement should be tested with additional input from those factors listed in paragraph 13(d).

Considering other factors and concluding

19. Staff shall use their judgement to conclude whether the disclosure requirements should be retained for Tier 2 entities. In addition to considering the key disclosure areas mentioned above, concluding may require consideration of the additional factors outlined in paragraph 13(d).

20. Staff shall use judgement in determining what factors rank higher and are more relevant in the circumstances.

21. After considering the relevance and ranking of these factors, staff must be able to clearly articulate what the benefit of the proposed disclosure requirement is for users of Tier 2 entities' financial statements.

22. A disclosure should only be retained based on the key principles in this policy being clearly demonstrated and sufficient to overturn the rebuttable presumption.

Initial indication disclosure meets key principles

23. Where proposed disclosure requirements reflect key disclosure areas listed in this policy, there is an initial indicator that the disclosure requirement should be retained for Tier 2 entities. Staff shall use judgement to determine whether the additional factors in paragraph 13(d) clearly support retaining the disclosure.

24. Given the default position of the rebuttable presumption, staff shall conclude that a disclosure should be retained for Tier 2 entities only when the initial indication to that effect (based on considering the key disclosure areas) is supported by the additional factors in paragraph 13(d), subject to staff judgement in ranking the considerations of these additional factors.

25. Where the additional factors on balance do not clearly support the indication that the disclosure should be retained, the presumption is not rebutted.

Initial indication disclosure does not meet key principles

26. Where proposed disclosure requirements do not reflect key disclosure areas listed in this policy, there is no indication that the presumption should be rebutted.

27. Staff shall consider whether there is any benefit in considering the additional factors listed in paragraph 13(d). For instance, whether any conditions (environmental or otherwise) exist that would mean the proposed disclosure requirements are of high interest to users. Otherwise, staff can at this point conclude that the disclosure requirement shall be granted a concession without progressing their analysis any further.

28. In instances where staff have considered there is benefit in analysing additional factors, there must be strong support from these additional factors to consider overturning the indicator and rebutting the presumption. These factors shall clearly display the key principles are met before staff conclude the disclosure requirement is instead retained and the presumption is rebutted.

Further information

29. For further information on completing each of the above steps, please refer to Appendix A.

30. For additional operational guidance refer to Appendix B.

Procedures

31. Upon commencement of a project from the accounting standards team work plan, staff shall consider at a high level whether existing RDR concessions within the applicable standard/standards are consistent with the key disclosure areas outlined in this policy. After making an initial assessment and in discussion with the appropriate level of staff, a way forward should be agreed. If applicable, further analysis using this policy shall be undertaken, and staff shall form a view of whether further action is required and should be proposed to the NZASB. If agreed by the NZASB, this policy shall be applied to the existing RDR concessions in question.

IASB ED

32. For an upcoming IASB ED, staff shall follow usual processes to determine whether the NZASB will submit a comment letter, and as applicable, shall apply this policy to inform comment on the proposed disclosures for IFRS 19. It is expected that staff will seek feedback (as part of their outreach) on the proposed disclosures for IFRS 19 to influence the IASB in case the Standard is revisited and adopted by the NZASB in future.

33. Prior to the ED being published, staff shall also consider whether it is appropriate and practicable to propose and consult on RDR concessions for disclosure requirements within the ED alongside the consultation of the ED itself. Some factors staff may consider (not exhaustive) include timing of the IASB issuing the ED, the extent of the proposals, the possible timing of Board approval, and required communications with stakeholders. Staff may use judgement in determining the best approach to consulting on the NZ-specific RDR concessions as part of the consultation on the IASB ED.

34. If it is not practicable or appropriate in the circumstances to consult on RDR concessions alongside the consultation of the IASB ED, staff shall revisit the approval and consultation of proposed RDR concessions upon the IASB issuing the final standard/amending standard.

IASB final standard/amending standard

35. Upon the amending standard or new standard being issued by the IASB, staff shall apply this policy to propose RDR concessions.

36. If proposed RDR concessions were exposed during the consultation on the initial IASB ED, then staff shall consider whether this policy shall be applied again, when:

    (a) actual disclosure requirements have changed from the initial ED; and

    (b) actual disclosures introduced to IFRS 19 have changed from the initial ED.

37. Where paragraph 36 applies, staff shall consider the significance of the changes before concluding whether to re-apply this policy and whether to re-expose the proposed RDR concessions.

38. Staff shall also consider whether any other wider environment changes have occurred that may mean RDR concessions previously exposed are no longer appropriate, regardless of

whether there have been any changes in requirements in the final standard/amending standard. Staff shall then follow an appropriate course of action to re-expose proposed RDR concessions.

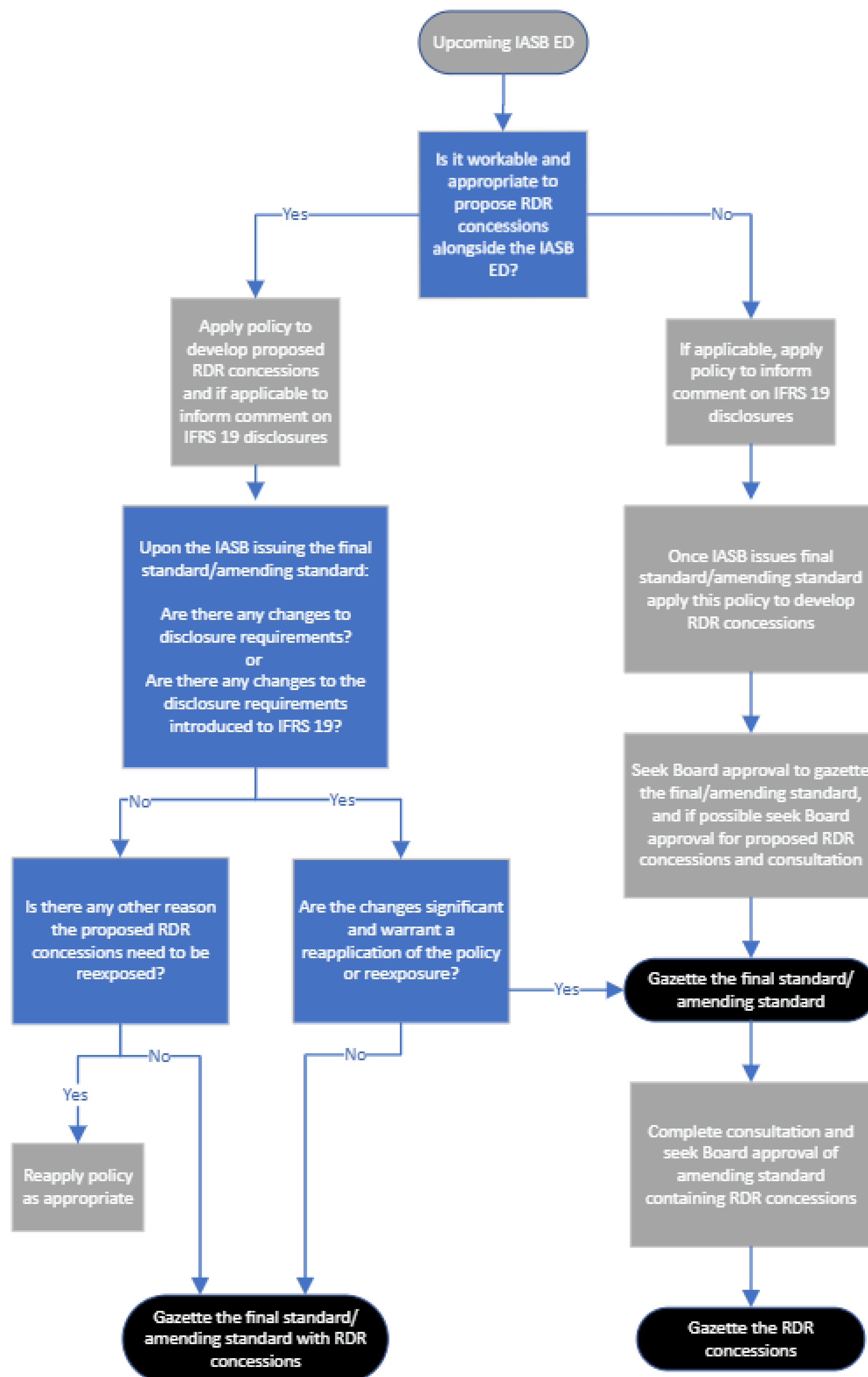
39. Where RDR concessions were not consulted on alongside the initial IASB ED or re-exposure of previously exposed RDR concessions is required, the proposed RDR concessions should be recommended to the NZASB concurrent with the approval for the IASB-based new or amending standard where possible.

40. Staff shall, as agreed with the NZASB, consult with New Zealand stakeholders and upon closing the consultation, complete the usual processes to analyse submissions received. At this point in time, staff shall develop, as applicable, a Basis for Conclusions in line with this policy.

41. Staff shall then follow usual processes to make a final recommendation to the NZASB and seek approval of the relevant RDR concessions and Basis for Conclusions where applicable.

42. This process is reflected in Diagram 2.

Diagram 2



For-profit domestic standard

43. For a new or amending domestic standard, staff shall apply this policy to identify proposed RDR concessions prior to the issue and consultation of the domestic ED.

44. Staff shall, as agreed with the NZASB, consult with New Zealand stakeholders on the proposed RDR concessions and upon closing the consultation and completing the usual processes to analyse submissions received, shall develop as applicable a Basis for Conclusions in line with this policy.

45. Staff shall then follow usual processes to make a final recommendation to the Board and seek approval of the relevant RDR concessions and Basis for Conclusions where applicable.

Basis for conclusions

46. In certain circumstances it is appropriate that the NZASB issues a Basis for Conclusions in respect to a decision on granting or not granting a RDR concession for disclosure requirements.

47. A Basis for Conclusions shall be developed and issued in line with standard due process requirements, if the following circumstances apply:

    (a) Existing RDR concessions are being overturned;[3]

    (b) Submission/s are received disagreeing with the proposed RDR concessions during the formal consultation period, regardless of whether the NZASB approves the relevant RDR concessions;

    (c) Where proposed RDR concessions are a topic of substantial debate with the NZASB; or

    (d) As agreed with the NZASB.

48. A Basis for Conclusions will not be developed or issued when none of the circumstances in the paragraph above apply. This is appropriate where there have not been submissions disagreeing with the proposals during the formal consultation period, and the Board was in general agreement during the discussion and approval of the respective RDR concessions.

Consultation

49. Staff shall follow standard due process requirements for consulting on proposed RDR concessions. Consultation for proposed disclosures must be agreed with the NZASB and shall be done so at the time of providing the NZASB with a recommendation on proposed RDR concessions for discussion.

50. Staff shall ensure that it is clearly explained in the consultation material the rationale for any disclosure requirements retained versus those proposed to have a RDR concession.

[3] Existing RDR concessions would only be considered after agreement with the NZASB.

51. In circumstances, where proposed RDR concessions shall have narrow applicability, it is suitable for staff to recommend a consultation commensurate with the expected impact of the introduction of these RDR concessions. Staff shall document their reasons for recommending the approach to consultation.

Responsibilities

52. Staff are responsible for completing an initial analysis of all proposed disclosure requirements. It is expected that all analysis is peer reviewed and approved by the appropriate level staff.

53. Staff shall summarise the analysis and provide this summary to the NZASB in all circumstances where reasonable and in an appropriate manner (even if this information is included as an appendix).

54. Staff shall provide a recommendation to the Board in all circumstances where reasonable, clearly articulating in a summary board paper the staff position in context of the approach set out in this policy.

55. Staff shall perform all necessary outreach and consultation as discussed with the NZASB and in line with standard due process.

56. The NZASB shall, in line with this policy, consider the merit of staff analysis in respect of the relevant factors laid out in this policy. The NZASB shall approve proposed RDR concessions only where they are satisfied the approach taken is consistent with this policy and the conclusion fairly reflects the outcome of the approach taken in respect of this policy.

Appendix A

Completing analysis

The following tables provide a breakdown of relevant questions and considerations necessary to analyse the disclosures and to reach a conclusion. The questions outlined in the tables should be considered and as appropriate documented in staff analysis as guided by this policy.

Table 1 - Understand the disclosure and its intent

Approach	Considerations may include
Identify the disclosures, related guidance, and disclosure objectives that require consideration.	Is it a disclosure or a presentation requirement? Is there a disclosure objective? Is there guidance that specifies how to achieve a disclosure objective? Is there cross referencing to another Standard where there is an existing RDR concession? See operational guidance section in Appendix B for additional considerations
Consider what the overall disclosure is related to and what it is aiming to achieve.	Consider the background and reason for the disclosure What does the disclosure address? What are the benefits of the disclosure? Does it provide useful information for users in context of their access to information from the entity?
Group the disclosures by themes	What does each part of the disclosure ask for and why? What does each part of the disclosure make an entity accountable for?
Consider whether the omission of one part of the disclosure impacts the objective of the whole disclosure	Are the components of the disclosure inter-related and only meaningful in context of the whole? What is sacrificed by the omission of a component of disclosure? How will this impact users?

Table 2 – Analyse the disclosure in terms of key disclosure areas

Approach	Considerations may include
Does the disclosure or parts of the disclosure relate to a key disclosure area?	Does it relate to liquidity or solvency? Does it relate to transactions and other events significant or material to understanding the entity's operations as represented by the financial statements, including: (i) the nature of the transaction or event that makes it significant or material to the entity;

	(ii) associated risks specific to a transaction or event; (iii) associated accounting policy on recognition or measurement specific to a transaction or event; (iv) associated significant estimates and judgements specific to a transaction or event; (v) commitments and contingencies; (vi) impairment; (vii) related parties; and (viii) subsequent events.

Table 3 – Other factors: consider IFRS 19

Approach	**Considerations may include**
Is the disclosure included in or proposed to be added to IFRS 19?	What do the Basis for Conclusions for the ED note about the proposed disclosures and why they are being included in IFRS 19? Given the difference in entities targeted by IFRS 19 – could we draw a different conclusion than the IASB for Tier 2 entities? Do we hold a different opinion to the IASB and why?

Table 4 – Other factors: Consider the impact and cost benefit of the disclosure separately to the key disclosure areas and IFRS 19

Approach	**Considerations may include**
Does the disclosure only have narrow applicability for NZ Tier 2 entities?	Will it commonly impact many entities? Is it very specific to a certain situation?
Is the disclosure fundamental to an understanding of NZ Tier 2 entities and its operations in the NZ context?	Is the disclosure commonly occurring across many entities or a particular industry? Is the disclosure of a general nature that applies to a large number of transactions?
Does the disclosure require a reasonable amount of support that may be difficult for NZ Tier 2 entities?	Will the disclosure take a significant amount of work to prepare? Does it require additional work beyond what is already required for the recognition, measurement and presentation involved in the accounting treatment?
Can the disclosure be audited without undue cost to support in the context of NZ tier 2 entities?	Does the audit support require a significant amount of work to prepare? Is the disclosure subject to estimation or lower levels of verifiability?

Table 5 – Other factors: Compare the disclosure to RDR concessions provided in the Standard and the wider suite of Standards

Approach	**Considerations may include**
Is the nature of the disclosure consistent with other RDR concessions provided in other standards?	Is there a strong precedent for this type of disclosure being granted a RDR concession in other Standards? Are there reasons why the disclosure in this instance, would need a different treatment to a similar type of disclosure in another Standard?
Is the disclosure consistent or intended as an addition to disclosures already subject to a RDR concession in the current standard?	Is there a reason why this disclosure necessitates a different treatment?

Appendix B

Operational Guidance

This operational guidance is used to facilitate the application of the RDR decision-making framework.

Presentation vs Disclosure

The RDR decision-making framework does not involve amending the presentation (the term presentation is sometimes used interchangeably with the term classification) requirements in NZ IFRS. It is concerned only with reducing the disclosure burden for Tier 2 for-profit entities. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure.

The following guidance is used to distinguish between presentation and disclosure.

(a) Presentation requirements are requirements that specify, for the current and the comparative period, the broad structure of financial statements including the basis of classification of items.

(b) Requirements addressing additional line items, disaggregation and subclassification of line items on the face of the primary financial statements are considered to be presentation requirements.

(c) Specifications relating to additional line items and disaggregation to be disclosed in the notes are treated as matters of disclosure.

(d) Where a standard provides an option for disclosure of information either on the face of the financial statements or in the notes, this is considered a disclosure requirement and is assessed against the RDR decision-making framework to determine which disclosures, if any, Tier 2 for-profit entities are required to make.

Disclosure Objective/Principle

Some NZ IFRSs include a paragraph that identifies the disclosure objective/principle for that standard. Disclosure objective/principle paragraphs are identified as concessions when all of the related disclosure requirements are identified as concessions. Judgement is required in determining whether the objective/principle paragraph is identified as a concession when most of the related disclosures are identified as concessions.

Guidance

The disclosure requirements in NZ IFRS are often accompanied by guidance which is intended to assist entities in making those disclosures.

Where guidance relates to a disclosure that Tier 2 for-profit entities are required to make, that guidance is not identified as a concession. Similarly, where guidance relates to a disclosure that Tier 2 for-profit entities are not required to make, a concession is provided for that guidance.

Disclosures that are Encouraged

Where an NZ IFRS encourages, rather than requires, a disclosure Tier 2 for-profit entities are not required to provide that information.

Reconciliations

A reconciliation required under NZ IFRS is not required to be prepared by Tier 2 for-profit entities as these do not relate to key disclosure areas. However, the individual items in that reconciliation are assessed against the RDR decision-making framework to determine which items, if any, Tier 2 for-profit entities are required to make.

Cross-referencing in Standards

Sometimes guidance in an NZ IFRS includes a cross-reference to disclosure requirements in another NZ IFRS. Where that disclosure referred to in the guidance is required to be made by Tier 2 for-profit entities, the guidance containing the cross-reference is not identified as a concession. Similarly, where the disclosure referred to in another NZ IFRS is not required to be made by Tier 2 for-profit entities, that guidance is identified as a concession.

Consistent with this approach, where a disclosure requirement in an NZ IFRS includes a cross-reference to a disclosure in another NZ IFRS, those disclosures are either both required to be made by Tier 2 for-profit entities or both are identified as concessions.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 7.3

Memorandum

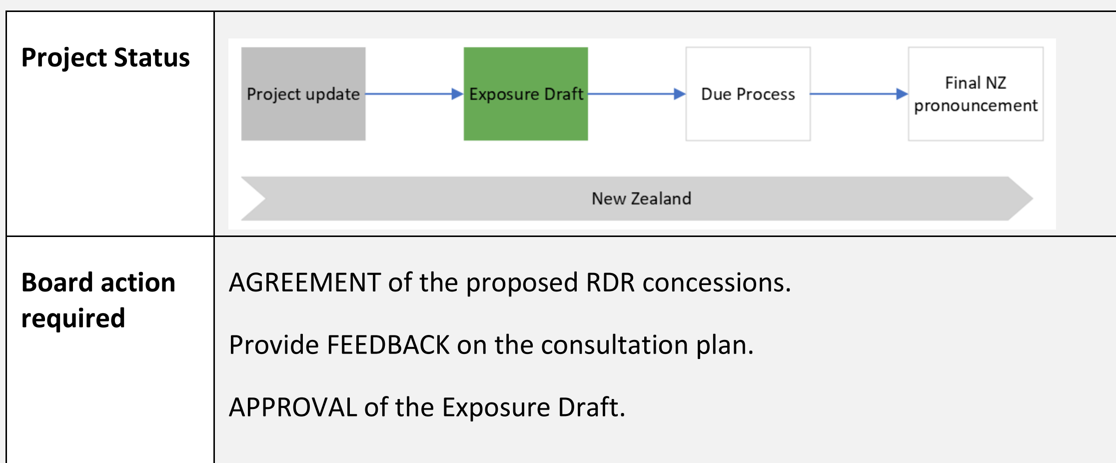
Date:	22 November 2024
To:	NZASB Members
From:	Alex Stainer
Subject:	**RDR concessions for disclosures introduced by *Amendments to the Classification and Measurement of Financial Instruments***

COVER SHEET

Project priority and complexity

Project purpose	Introduce RDR concessions to 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 proposing 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. Proposed RDR concessions need to be consulted upon, approved and gazetted sufficiently prior to this date to provide certainty for Tier 2 entities.

Overview of agenda item



Project Status	Project update → Exposure Draft → Due Process → Final NZ pronouncement New Zealand
Board action required	AGREEMENT of the proposed RDR concessions. Provide FEEDBACK on the consultation plan. APPROVAL of the Exposure Draft.

Recommendations[1]

1. The Board is asked to:

   (a) AGREE to the proposed RDR concessions for Tier 2 for-profit entities with respect to some of the disclosures established by *Amendments to the Classification and Measurement of Financial Instruments;*

   (b) Provide FEEDBACK on the proposed consultation plan; and

   (c) APPROVE the Exposure Draft.

Background

2. The Board approved for issue the amending standard *Amendments to the Classification and Measurement of Financial Instruments* in its June 2024 meeting. At this meeting the Board also agreed to the development of RDR concessions once our approach to Tier 2 for-profit disclosure requirements was confirmed.

3. At the same meeting, the Board decided to maintain the current RDR regime and not adopt IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in New Zealand. We have now developed a draft RDR policy for Board feedback and have applied this draft policy to identify the applicable disclosure requirements for Tier 2 entities introduced by *Amendments to the Classification and Measurement of Financial Instruments*.

Structure of this memo

4. The remaining sections in this memo are:

   (a) Amendments introduced;

   (b) RDR concessions;

   (c) IFRS 19;

   (d) Consistency with Australian Accounting Standards;

   (e) Consultation and next steps;

   (f) Appendix A: Summary of *Amendments to the Classification and Measurement of Financial Instruments*; and

   (g) Appendix B: Analysis on the disclosure requirements introduced by Amendments to the Classification and Measurement of Financial Instruments in line with the draft RDR policy.

Amendments introduced

5. The IASB proposed amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* in response to feedback received as part of the Post-implementation Review (PIR) of IFRS 9—*Classification and Measurement*.

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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).

6. The IASB concluded that, in general, the classification and measurement requirements of IFRS 9 can be applied consistently and that in doing so an entity provides useful information to users of its financial statements. However, the IASB also concluded that, in relation to some matters, the requirements should be clarified to improve their understandability and address application challenges.
7. Accordingly, the IASB decided to make narrow-scope amendments to the requirements related to settling financial liabilities using an electronic payment system and assessing contractual cash flow characteristics of financial assets including those with environmental, social and governance (ESG) linked features.
8. For a summary of the main amendments, please refer to Appendix A.

RDR concessions

9. We have summarised our proposed RDR concessions for the disclosure requirements introduced by *Amendments to the Classification and Measurement of Financial Instruments* in Table 1 below. In Appendix B, we have also provided an example of how we have applied the draft RDR policy to the full list of introduced disclosure requirements. Moving forward, we intend to solely provide the Board a summary of our analysis (similar to table 1 below).

Table 1 – Proposed RDR concessions for *Amendments to the Classification and Measurement of Financial Instruments*

Standard	Disclosure requirements introduced	Proposed RDR concession
NZ IFRS 9 *Financial Instruments*	**On transition** **Paragraph 7.2.49** Where a class of financial assets have changed measurement category as a result of the amendments, an entity must disclose: • the measurement category and carrying amount determined immediately before the amendments were applied. • the measurement category and carrying amount determined immediately after the amendments were applied.	**No RDR concession** has been proposed for these disclosures, on the basis they relate to the accounting policy for classifying and measuring financial assets – specifically, the change in this accounting policy as a result of the amendments introduced. As such, the disclosures relate to a key disclosure area – and will provide useful information on changes of measurement category as a result of the amendments, which would allow a user to better understand the financial statements.
NZ IFRS 7 *Financial Instruments: Disclosures*	**Disclosures for investments in equity instruments designated at fair value through other comprehensive income (OCI)** **Paragraphs 11A and 11B** Amendments to specify that the disclosures in paragraph 11A of IFRS 7 apply to each *class* of investment in equity instruments classified	**Proposed RDR concessions** for these disclosures on the basis they do not relate to key disclosure areas.

	as fair value through OCI (rather than for each such investment). Introduces a disclosure to differentiate changes in fair value a between those related to investments derecognised during the period and those related to investments held at the end of the period. Introduces a disclosure to outline the cumulative gain or loss transferred within equity for investments derecognised during the period.	
	Disclosures for financial instruments with contingent features **Paragraphs 20B, 20C and 20D** Introduces disclosures for financial instruments with contingent features – i.e. financial instruments with terms that can change the amount of contractual cash flows a result of a contingent event that does not relate directly to changes in basic lending risks and costs (e.g. loans with ESG-linked features). The disclosures require: • a qualitative description of the nature of the contingent event, and • quantitative information about possible changes to contractual cash flows as a result of the abovementioned terms, and the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those terms.	**No RDR concession has been proposed** for the qualitative description of nature of the contingent event, and related disclosure guidance. This is on the basis they relate to a key disclosure area. **No RDR concession has been proposed** for the quantitative information about changes in contractual cash flows and carrying amounts of financial assets and liabilities with contingent features. This is on the basis they relate to a key disclosure area (liquidity) and the additional factors considered supported the retention of these disclosures as they will provide benefit to a user of Tier 2 financial statements.

IFRS 19

10. As part of our draft RDR policy, consideration of the disclosure requirements of IFRS 19 is required where the introduced disclosure requirement covers a key disclosure area – and if the disclosure is included in IFRS 19, this provides further support to the indication that the initial position (that all disclosure requirements should be granted a RDR concession) could be rebutted.

11. The IASB have published a 'catch-up' exposure draft relating to IFRS 19 that confirms their intention to:

(a) not include in IFRS 19 the amendments to IFRS 7 relating to equity instruments designated at fair value through other comprehensive income; and

(b) include in IFRS 19 the amendments to IFRS 7 relating to financial instruments with contingent features.

12. If the IASB catch-up ED is finalised as drafted, it would further support our recommendations relating to RDR concessions in Table 1 above. However, we acknowledge that, at the time of preparing this memo, the consultation on the 'catch-up' exposure draft is still open for comment and the disclosure requirements to be added to IFRS 19 are not finalised.

Consistency with Australian Accounting Standards

13. The Australian Accounting Standards Board (AASB) has issued an Exposure Draft with the proposals for disclosure requirements for inclusion in AASB 1060 as a result of *Amendments to the Classification and Measurement of Financial Instruments.*

14. Our position is currently consistent with that of the AASB's Exposure Draft. They have proposed that they make:

    (a) amendments to AASB 1060 to require a Tier 2 entity to disclose information about financial instruments with contingent features that do not relate directly to basic lending risks; and

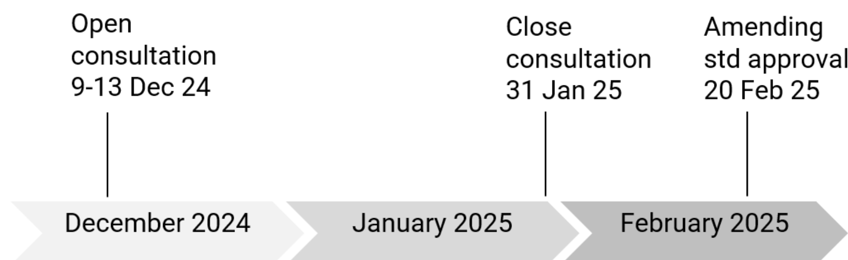
    (b) no amendments to AASB 1060 to replicate the new disclosures added to paragraphs 11A and 11B of AASB 7 for investments in equity instruments designated at fair value through other comprehensive income (meaning that Tier 2 entities will not be required to provide this disclosure).

Consultation and next steps

15. On the basis that these amendments are targeted and narrow in scope, we propose that we open a consultation on the proposed RDR concessions for *Amendments to the Classification and Measurement of Financial Instruments* via the website until the end of January 2025. An Exposure Draft showing the proposed RDR concessions is included in Agenda Item 7.4 for the Board's approval. We note that while paragraphs 11A and 11B in NZ IFRS 7 have existing RDR concessions, we have reflected in the Exposure Draft the new disclosure concessions for subparts 11A(f) and 11B(d) that were recently added by *Amendments to the Classification and Measurement of Financial Instruments.*

16. We plan to inform relevant stakeholders of this consultation and to invite their feedback via an Accounting Alert prior to the end of the year. We do not propose to do any other outreach activity.

17. If the Board agrees to our proposals, we will proceed with the consultation and seek approval of an amending standard containing the RDR concessions for *Amendments to the Classification and Measurement of Financial Instruments* at a future meeting in early 2025 (expected Feb 2025).



Questions for the Board

Q1. Does the Board AGREE to the proposed RDR Concessions for *Amendments to the Classification and Measurement of Financial Instruments* outlined in this memo?

Q2. Does the Board have any FEEDBACK on the proposed consultation closing 31 January 2025?

Q3. Does the Board APPROVE for issue the Exposure Draft?

Attachments

Agenda item 7.4: Exposure Draft: *RDR Concessions - Amendments to the Classification and Measurement of Financial Instruments*

Appendix A

Summary of *Amendments to the Classification and Measurement of Financial Instruments*

Amendment	Description
Derecognition of a financial liability upon initiating payment via electronic payment system	NZ IFRS 9 generally requires financial liabilities to be recognised on the settlement date, which is the date on which the liability is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. The amendments clarify that for financial liabilities settled in cash via an electronic payment system, an entity can derecognise a financial liability prior to settlement date if the entity has met the following criteria upon initiating the payment instruction: ○ they have no practical ability to withdraw, stop or cancel payment instructions; ○ they have no practical ability to access the cash; and ○ there is an insignificant settlement risk.
Provides further clarification for financial assets on how they can be consistent with a basic lending arrangement and therefore recorded at amortised cost (including those that have ESG-linked features)	The amendments add the following guidance in the assessment of whether a financial asset is consistent with a basic lending arrangement (and therefore meet the 'solely payments of principal and interest' test and be measured at amortised cost): ○ Entities should focus on the reason for the compensation/interest (rather than amount). ○ If contractual cash flows are indexed to a variable that is not a basic lending risk or cost this is inconsistent with a basic lending arrangement. For those financial assets with contractual terms (or contingent features) that could result in cash flows changing, the following guidance was added (along with the provision of two examples): ○ Cash flows before and after the trigger of the contractual terms should be considered, irrespective of the probability of the change in contractual cash flows occurring. ○ The nature of the contingent event and whether it relates directly to changes in basic lending risks and costs should be considered. ○ In some cases, a contingent feature gives rise to contractual cash flows that are consistent with a basic lending arrangement as described in NZ IFRS 9, both before and after the contingent event, but the nature of the

Amendment	Description
	contingent event itself (e.g. meeting an ESG-linked target) does not relate directly to changes in basic lending risks and costs. In such cases, the financial asset can still be consistent with a basic lending arrangement. However, this is only the case if the contractual cash flows (both before and after the contingent event occurring) would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without such a contingent feature. Guidance is also added for other types of financial assets that: ○ Outlines what financial assets with non-recourse features are, and considerations when assessing if the cash flows are consistent with a basic lending arrangement. ○ Specifies where transactions that involve multiple contractually linked instruments (to determine payments to holders of financial assets) need to be assessed differently to determine whether they are consistent with a basic lending arrangement.
Amended and added disclosures for investments in equity instruments designated at fair value through other comprehensive income (OCI)	Amends to specify that the disclosures in paragraph 11A of NZ IFRS 7 to apply to each *class* of investment in equity instruments classified as fair value through OCI (rather than for each such investment) Introduces a disclosure to differentiate changes in fair value between those related to investments derecognised during the period and those related to investments held at the end of the period.
Added disclosures for financial instruments with contingent features	Introduces disclosures for financial instruments with contingent features that require: ○ a qualitative description of the nature of the contingent event, and ○ quantitative information about changes to contractual cash flows as a result of the terms relating to contingent events and the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those terms.

Appendix B

Analysis on the disclosure requirements introduced by *Amendments to the Classification and Measurement of Financial Instruments* in line with the draft RDR policy (attached as Agenda Item 7.2)

Disclosure	**Intent** **(Para 13(a) RDR policy)**	**Key disclosure area** **(Para 13(c) RDR policy)**	**Additional inputs** **(Para 13(d) RDR policy)**	**Conclusion** **(Para 13(e) RDR policy)**
NZ IFRS 9 *Financial Instruments* **Paragraph 7.2.49** At the date of initial application of the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets), an entity shall disclose for each class of financial assets that changed measurement category as a result of applying the amendments: (a) the measurement category and carrying amount determined immediately before the amendments were applied; and (b) the measurement category and carrying amount determined immediately after the amendments were applied	To provide information on the impact of the change relating to the amendments where a measurement category may have changed for a financial asset.	Yes, there is an indicator that the presumption is rebutted. In our view this disclosure is related to an associated accounting policy on recognition or measurement specific to a transaction or event, which is a key disclosure area. This is because it discloses information of the effect of transition to the new amendments and impacts the applicable accounting policy previously applied for the relevant financial assets.	Consideration of additional inputs supports retaining the disclosure: *Precedent*: NZ IAS 8 (paragraphs 28(c) and (f)) requires Tier 2 entities to disclose the nature of a change in accounting policies and the amount of the related adjustments. Arguably, this disclosure is of a similar nature. *Overarching benefits*: We consider that these disclosures will provide useful information on changes of measurement category as a result of the amendments, which would allow a user to better understand the financial statements.	Presumption is rebutted and the disclosure requirement is appropriate for Tier 2 entities.

Disclosure	Intent (Para 13(a) RDR policy)	Key disclosure area (Para 13(c) RDR policy)	Additional inputs (Para 13(d) RDR policy)	Conclusion (Para 13(e) RDR policy)
IFRS 7 *Financial Instruments: Disclosures* **Paragraph 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 ~~of each such investment~~ 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	The intent of these amendments is to change the associated disclosures for investments in equity instruments to be made based on each class of investment. The IASB had received feedback that the current requirements were too onerous. In terms of requiring disclosure for fair value changes between those financial instruments that are held versus those that have been derecognised, the IASB acknowledged that the current requirements do not distinguish between realised and unrealised gains/losses, and that these amendments will make the information on fair value changes more transparent for users. Paragraph 11A and 11B currently have a RDR concession. As these paragraphs have been	No key disclosure area.	We are not considering additional factors because there is no key disclosure area present. We also do not see any reason why we should consider these disclosure requirements any further.	Presumption is therefore not rebutted and these disclosure requirements should be granted a RDR concession.

Disclosure	Intent (Para 13(a) RDR policy)	Key disclosure area (Para 13(c) RDR policy)	Additional inputs (Para 13(d) RDR policy)	Conclusion (Para 13(e) RDR policy)
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. **Paragraph 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.	modified by the change for the disclosures to each class of investment to make it less onerous, we have revisited these disclosure requirements.			
NZ IFRS 7 *Financial Instruments: Disclosures* Paragraph 20B An entity shall disclose the information required by paragraph 20C by class of	Paragraph 20B is intended to provide guidance on how to make the disclosures included in Paragraph 20C.	**Paragraph 20C (a)** Yes – paragraph 20C (a) relates to the key disclosure area of the nature of the	**Paragraph 20C (a), (b) and (c)**	**Paragraph 20C (a), (b) and (c)** Presumption is rebutted for

Disclosure	**Intent** **(Para 13(a) RDR policy)**	**Key disclosure area** **(Para 13(c) RDR policy)**	**Additional inputs** **(Para 13(d) RDR policy)**	**Conclusion** **(Para 13(e) RDR policy)**
financial assets measured at amortised cost or fair value through other comprehensive income and by class of financial liabilities measured at amortised cost. The entity shall consider how much detail to disclose, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate any quantitative information disclosed. **Paragraph 20C** To enable users of financial statements to understand the effect of contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs (such as the time value of money or credit risk), an entity shall disclose: (a) a qualitative description of the nature of the contingent event; (b) quantitative information about the possible changes to contractual cash flows that could result from those contractual terms (for example, the range of possible changes); and	The intent of these disclosures is to help users' understanding and assessment of an entity's future cash flows as they disclose qualitative and quantitative information about contractual terms that could change cashflows going forward. Paragraph 20D provides clarification on the scope of these disclosures.	transaction or event that makes it significant or material to the entity. **Paragraph 20C (b)** Yes – in our view paragraph 20C(b) relates to the key disclosure area of liquidity and solvency. Possible changes in cashflows may be material for users to understand how an entity can meet its short-term obligations. **Paragraph 20C (c)** In our view paragraph 20C(c) provides useful supporting information to both 20C(a) and (b) and should be considered in relation to those disclosures. Therefore, in our view it supports a key disclosure area.	We have considered additional factors for 20C (a), (b) and (c) together: *IFRS 19* – The IASB proposes in the Exposure Draft for 'catch-up' amendments to IFRS 19 that the disclosure requirements of 20C shall be included. This is on the basis they consider that changes in the amounts of contractual cashflows provide useful information about short-term cash flows as well as liquidity and solvency. They noted that if an entity held a financial liability with such terms and it forms a significant portion of an entity's financing, changes to the contractual cash flows could affect an entity's liquidity. *Precedent in NZ IFRS 7* – the disclosures on nature and extent of risks arising from financial	paragraph 20C (a), (b) and (c). On balance, we consider that despite some of the precedent in our Standards, we have clear support that illustrates the benefit this disclosure requirement would have specifically to users of Tier 2 financial statements. **Paragraph 20B and 20D** We recommend that Paragraph 20B and 20D are not given a RDR concession as they provide guidance for paragraph 20C in line with the operational guidance held within the RDR policy.

Disclosure	Intent (Para 13(a) RDR policy)	Key disclosure area (Para 13(c) RDR policy)	Additional inputs (Para 13(d) RDR policy)	Conclusion (Para 13(e) RDR policy)
(c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms. **Paragraph 20D** For example, an entity shall disclose the information required by paragraph 20C for a class of financial liabilities measured at amortised cost whose contractual cash flows change if the entity achieves a reduction in its carbon emissions.			instruments, including both qualitative and quantitative disclosures, all have existing RDR concessions. However, it could be argued that the disclosures in paragraph 20B-20D are somewhat different. For instance, the market risk disclosure requirements in NZ IFRS 7, which already have RDR concessions, require disclosure of how reasonably possible changes in the market risk variables (e.g. interest rate risk) would impact profit or loss and equity. By contrast, in the Basis for Conclusions accompanying NZ IFRS 7, paragraph BC35ZZF explains that in introducing the disclosure requirements in para B20B-B20D, the IASB decided "*not* to require entities to provide a sensitivity analysis of possible changes in	

Disclosure	Intent (Para 13(a) RDR policy)	Key disclosure area (Para 13(c) RDR policy)	Additional inputs (Para 13(d) RDR policy)	Conclusion (Para 13(e) RDR policy)
			contractual cash flows or a quantification of the likely effect these contingent events could have on their financial statements”. *Overarching benefit* – Information on possible changes in cashflows and the extent an entity is exposed to a contingent event provides benefit for users. From a NZ perspective, we would expect most of these transactions for Tier 2 entities to involve a financial liability whereby a contingent event may see a reduction in financing costs as a result of achieving some type of ESG target. On this basis, the disclosures provide information about the extent of costs the entity may be able to save and	

Disclosure	Intent (Para 13(a) RDR policy)	Key disclosure area (Para 13(c) RDR policy)	Additional inputs (Para 13(d) RDR policy)	Conclusion (Para 13(e) RDR policy)
			how this may impact its liquidity and how it manages it going forward. It also highlights management's ability to drive a reduction in costs through ESG strategy and execution. When considering the profile of users of Tier 2 financial statements in New Zealand and the access to information they may already have, we continue to see relevance and benefit in this type of information to aid users' general-purpose decision making. Further, we understand these types of transactions are becoming more prevalent and therefore increases the importance of these disclosures going forward.	

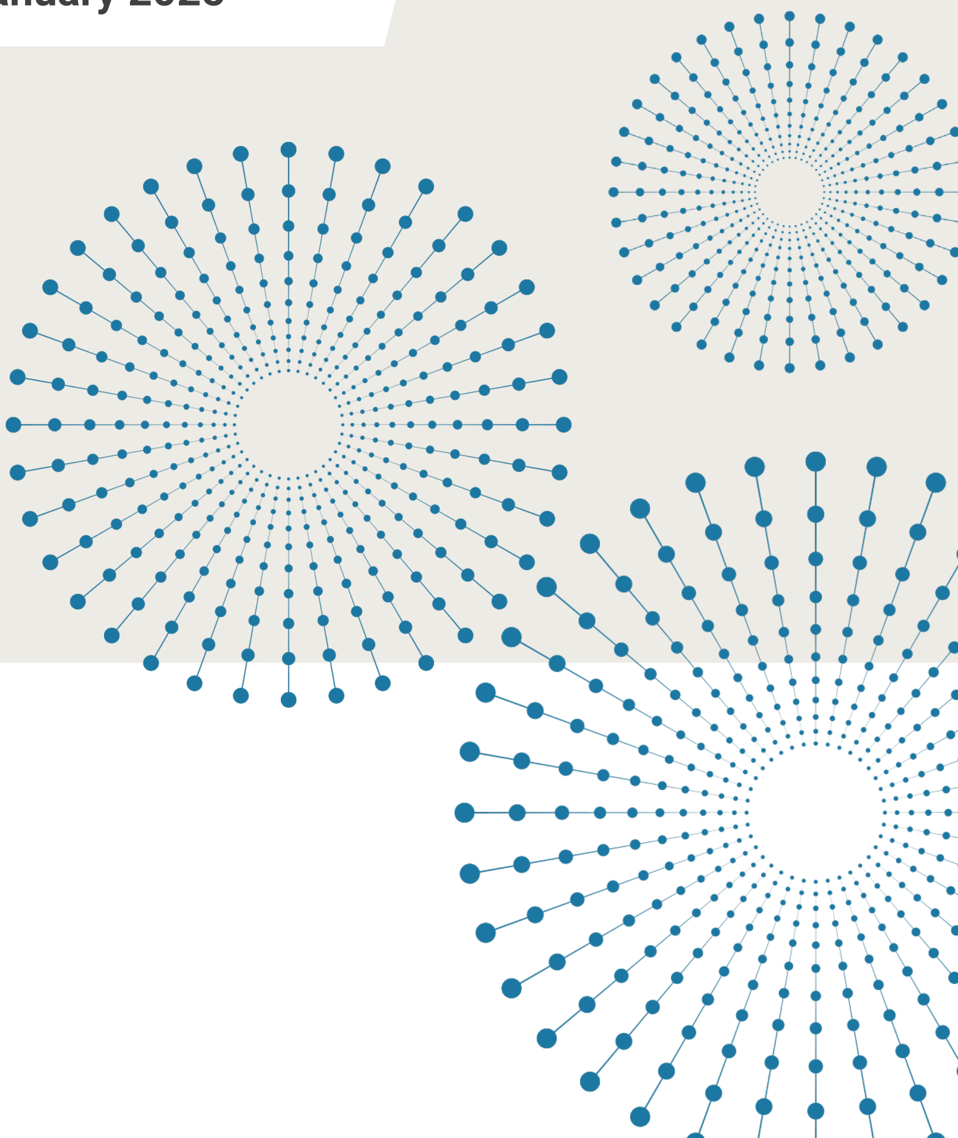
Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Exposure Draft

RDR Concessions - Amendments to the Classification and Measurement of Financial Instruments

Proposed amendments to NZ IFRS 7

Submissions close on 31 January 2025



December 2024

RDR Concessions - Amendments to the Classification and Measurement of Financial Instruments

Issued [Date]

This [draft] 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 [draft] 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 [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 paragraph NZ 44MM.1–NZ 44MM.4 of this [draft] amending Standard.

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CONTENTS

from page

PART A: INTRODUCTION **5**

PART B: SCOPE **5**

PART C: AMENDMENTS TO NZ IFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

- **SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE** **5**
- **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

...

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 [date], 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 [date] and takes effect on [date].

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.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 8.1

Memorandum

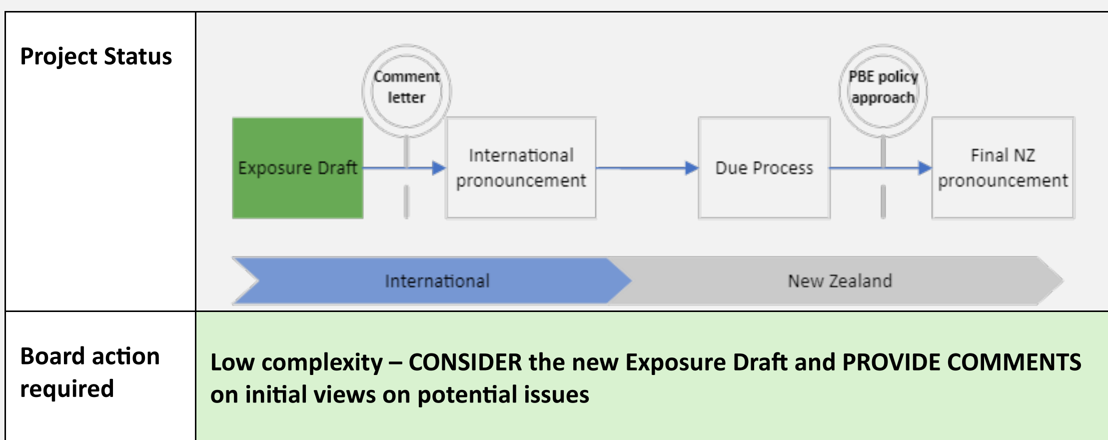
Date:	21 November 2024
To:	NZASB Members
From:	Nimash Bhikha
Subject:	Provisions – Targeted Improvements – Issues Paper

COVER SHEET

Project priority and complexity

Project purpose	IASB perspective: 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. XRB perspective: 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	Cost/benefit considerations are included within this memo (Section B)
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 – CONSIDER the new Exposure Draft and PROVIDE COMMENTS on initial views on potential issues**

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* (Agenda Item 8.2).

2. 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.

3. 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;
   - 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.

4. 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.

5. XRB staff have prepared some initial views on the proposals within the ED which are outlined in this paper (noted in green).

Recommendations

6. We recommend the Board **CONSIDER** the IASB Exposure Draft and **PROVIDE FEEDBACK** on any initial areas of concern with the proposals which could be considered further by XRB staff.

Structure of this memo

7. This memo includes the following sections:

a) Section A - Matters for Consideration
- *Conceptual Framework Clarifications (Q1)*
  - *i. Updates to liability definition and recognition criteria*
  - *ii. Disentanglement of supporting requirements*
  - *iii. Clarification of obligation condition*
  - *iv. Amendments to transfer condition*

[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).

v. *Amendments to past-event condition*
vi. *Threshold-triggered costs*
vii. *Improving the wording of the requirements for restructuring costs*

- *Amendment to Measurement Requirements (Q2)*
  i. *Costs to include within the provision's calculation*
  ii. *Discount rates*
- *Transition Provisions (Q3)*
- *Consequential Amendments to other Standards (Q4))*
- *Updated guidance on implementing IAS 37 (Q5)*

b) *Section B - Costs and Benefits Summary (Q6))*

c) *Section C - Timelines and Next Steps (Q7)*

SECTION A – MATTERS FOR CONSIDERATION

8. The ED contain two main types of changes around provisions – Conceptual Framework clarifications and amendments to measurement requirements (key changes noted in blue).

Conceptual Framework Clarifications

- ***Updates to liability definition and recognition criteria***

9. The aim of the proposed amendments to the liability definition and recognition criteria is to

   - Clarify the requirements, which have given rise to a series of questions to the IFRS Interpretations Committee, including further questions that have arisen recently in relation to climate-related regulations and commitments; and
   - Change the timing of recognition of provisions for some levies—with the provisions being accrued earlier and progressively instead of at a later point in time—to provide more useful information to users of financial statements.

   Liability definition

Current IAS 37 requirements	Proposed ED requirements (Paragraphs 10)
A liability is when there is a present obligation arising from past events, settlement of which is expected to result in outflow of resources embodying economic benefits.	A liability is a present obligation to transfer an economic resource as a result of past events.

10. IAS 37 is the only IFRS Accounting Standard (and NZ IFRS Accounting Standard) that uses a definition of a liability that predates the 2018 *Conceptual Framework* definition, so removing that definition would mean that a single definition exists across the standards.

11. A single definition will reduce complexity for preparers of financial statements developing an accounting policy for a transaction not specifically addressed by any IFRS Accounting Standard, by no longer requiring them to decide whether to apply the IAS 37 definition or the *Conceptual Framework* definition.

12. We have not identified any concerns with the update to the liability definition, as the same conditions around present obligation, a transfer of economic resource and past event are all maintained.

Present obligation recognition criterion

Current IAS 37 requirements	Proposed ED requirements (Paragraphs 14)
The current recognition criteria explains a provision shall be recognised when an entity has a present obligation (legal or constructive) as a result of a past event.	The proposed recognition criteria explains an entity has a present obligation (legal or constructive) to transfer an economic resource as a result of a past event. (Paragraph 14(a))

13. The IASB proposes to make the wording of the recognition criterion consistent with the updated liability definition to make that relationship clearer.

14. We have not identified any concerns with the updates to the present obligation criterion, as the same principles around present obligation remain, and the terminology has been updated to match the updated definition of a liability.

- ***Disentanglement of supporting requirements***

Current IAS 37 requirements	Proposed ED requirements (Paragraphs 14A)
The current recognition criteria explains a provision shall be recognised when an entity has a present obligation (legal or constructive) as a result of a past event. The standard also notes: • In almost all cases it will be clear whether a past event has given rise to a present obligation; and • In rare cases it may not clear whether there is a present obligation and consideration should be made if, taking account of all available evidence, it is more likely than not that a present obligation exists.	Separate sections of requirements are included to support each of the three underlying conditions: • Obligation condition – The entity has an obligation. • Transfer condition – The nature of the obligation is to transfer an economic resource (transfer does not mean the same as exchange unless the terms are unfavourable). • Past-event condition – The obligation is a present obligation that exists as a result of a past event.

15. To clarify the present obligation recognition criterion, the ED proposes to remove the requirement for an obligating event and replace it with the three distinct requirements—obligation, transfer and past-event requirements— to match the updated liability definition.

16. We consider the disentanglement of the provisions recognition criteria to be reasonable, compared to the existing requirements. While the same principles of an obligating event have been retained, the consideration across three elements provides for a clearer framework for users to exercise their judgement around what resulted in an obligation and why.

17. However, we note there may be confusion around how this interacts with the contingent liability recognition criteria (particularly if only one or two of the underlying conditions are met) and we would encourage the IASB to provide clarity around how these disentangled requirements would impact on the recognition of contingent liabilities and whether the definition of contingent liability would need updates to reflect the updated liability definition.

- ***Clarification of obligation condition***

Current IAS 37 requirements	**Proposed ED requirements (Paragraphs 14B-14H)**
The current requirements explains that 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: • Where the settlement of the obligation can be enforced by law; or • 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.	The proposals explain an entity has an obligation when: • A mechanism imposes a responsibility on the entity if it obtains specific benefits or takes a specific action. This mechanism could be legal or constructive and having no practical ability to avoid; • The entity owes that responsibility to another party; and • The entity has no practical ability to avoid discharging the responsibility if it obtains the benefits or takes the action.

18. The ED proposes to describe an obligation as a responsibility the entity has 'no practical ability to avoid'. This description is based on the definition in paragraph 4.29 of the *Conceptual Framework*.

19. The IASB has previously concluded that the meaning of 'no practical ability to avoid' is that of 'no realistic alternative to settling' (confirmed in paragraph BC4.57 in the Basis for Conclusions of the *Conceptual Framework*). As such, this change in terminology is not expected to affect the application of IAS 37.

20. The ED clarifies that there is no practical ability to avoid legal obligations when the other party has legal rights to act against an entity if it fails to settle obligation, and as a result, the economic consequences of not settling are significantly more adverse than those of settling.

21. The ED also clarifies that there is no practical ability to avoid a constructive obligation when the entity's past practice, policy or statement creates valid expectation in other parties that entity will settle obligation.

22. We have not identified concerns with these proposals, as the existing principles has been retained despite the wording being updated to match the conceptual framework. However, we note that the changing wording may be interpreted by entities as changing the principles, as the IASB should consider clear messaging in the standard and Basis for Conclusions that this does not change the existing principles around "no practical ability to avoid".

- ***Amendments to transfer condition***

Current IAS 37 requirements	**Proposed ED requirements (Paragraphs 14I-14L)**
The current requirements note a provision shall be recognised when 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	The proposals explain that a provision is recognised when 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. That potential does not need to be certain or likely

23. The proposals provide additional explanations of the transfer requirement which align to concepts from the *Conceptual Framework*. The updated requirements reflect the existing principles that:
    - 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 a provision may not be recognised if is it not probable that the entity will be required to transfer an economic resource (due to the other recognition criteria); and
    - Obligations to exchange resources—for example, executory contract obligations—do not necessarily lead to the recognition of a provision.

24. The proposals also 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 and not change the meaning of the term *executory contract*.

25. We have not identified any concerns with additional explanations and clarifications proposed around the transfer condition and this support existing established principles within the Conceptual Framework around uncertainty and executory contracts.

- ***Amendments to past-event condition***

Current IAS 37/IFRIC 12 requirements	**Proposed ED requirements (Paragraphs 14M-14T)**
The current requirements within IAS 37, and IFRIC 21 *Levies*, note that provisions are only recognised for obligations that exist independently of an entity's future actions and the obligating event is an event that triggers payment of levies.	The ED proposals note that a past event occurs when an entity has obtained the specific economic benefits or taken the specific action and therefore, will or may have to transfer an economic resource it would not otherwise have had to transfer (paragraph 14N). If the action is taken over time, the past-event condition is met, over that time. (paragraph 14O), and if two or more separate actions are needed, then the past event condition is met when the first action is taken (paragraph 14Q). The ED proposals also add clarity over the concepts of legal obligations and constructive obligations (paragraph 14S – 14T).

26. Under the current requirements, the combined reference to "obligating event" means it is not clear whether actions which impact on the obligation criterion, or the past-event criterion would be impacted by potential future actions.

27. 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. However, 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).

28. IFRIC 21 includes requirements for circumstances where 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 only when the entity takes the last of those actions.

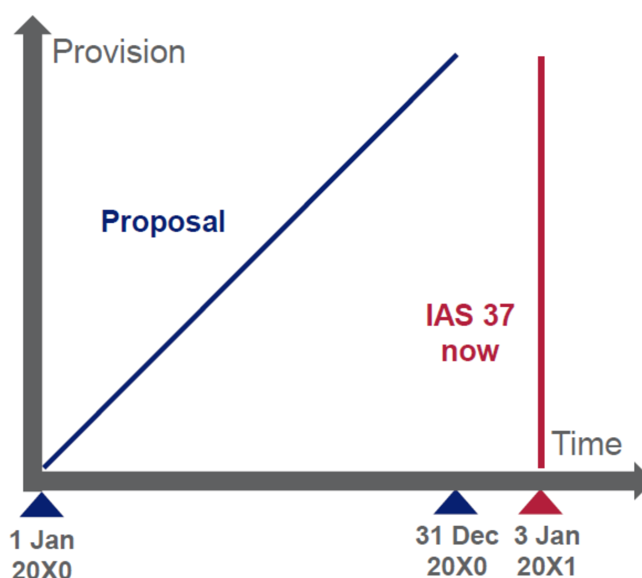
29. However, IFRIC 21 has been criticised by investors, preparers and auditors of financial statements, and national standard-setters. It results in entities recognising some recurring

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.

30. The proposals update the past-event to clarify the above requirements to focus on the actions which may result in a transfer of an economic resource. This is to address the criticisms of IFRIC 21—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.

31. The proposed amendments would change the timing of recognition of some provisions. The timing would change if a transfer of economic resources is required only if an entity takes two or more specified actions.

    - Currently, an entity applying paragraph 19 of IAS 37, and IFRIC 21, is regarded as having a present obligation only when it has taken the ***last*** of the required actions, triggering the transfer.
    - In contrast, an entity applying the proposed new requirements will have a present obligation as soon as it has taken ***any*** of the actions and has no practical ability to avoid the other actions (paragraph 14Q). Assuming the other recognition criteria are met, an entity might recognise a provision earlier based on the first action taken (as opposed to the last).



32. We note that the ED results in a fundamental change in the recognition of these types of provisions and will result in the recognition of these provisions has been brought forward through the proposed requirements, if the other recognition criteria are also met.

33. However, the requirements (paragraph 14Q) note that in situations 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, Where the other recognition criteria are not met, including when future actions could be avoided, then the provision would be released.

34. Overall, the changes proposed appear to be reasonable to support the accrual basis of accounting and allow for the provisions to be recognised based on when the initial actions which cause an obligation to begin, rather than at the completion of that action. This would bring the accounting for these types of specific provisions in line with other types of provisions (such as decommissioning and rehabilitation provisions which are built up over time).
35. We note that any material judgements and estimates around 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 once IFRS 18 *Presentation and Disclosure in Financial Statements* is effective).

- ***Threshold-triggered costs***

Current IAS 37/IFRIC 12 requirements	Proposed ED requirements (Paragraph 14P)
The current requirements within IAS 37, and IFRIC 21 note that these types of arrangements would result in the obligation event being satisfied when the specified activity exceeds the threshold. As a result, a provision would only be recognised once the specified activity crosses the determined threshold.	The proposes clarify that the recognition of a provision where there are costs payable if a measure of entity's activity in a period exceeds a specific threshold. A present obligation accumulates as entity conducts activity that contributes to total on which cost is calculated. The present obligation is portion of total expected obligation – which is the portion attributable to activity to date.

36. These requirements are expected to apply to the following scenarios:
    - Levies payable by entity whose annual revenue exceeds specified amount.
    - Maintenance costs lessee pays if condition of leased asset at end of lease falls below specified threshold.
    - Penalties imposed on entity whose greenhouse gas emissions in specified period exceed allocated quota.

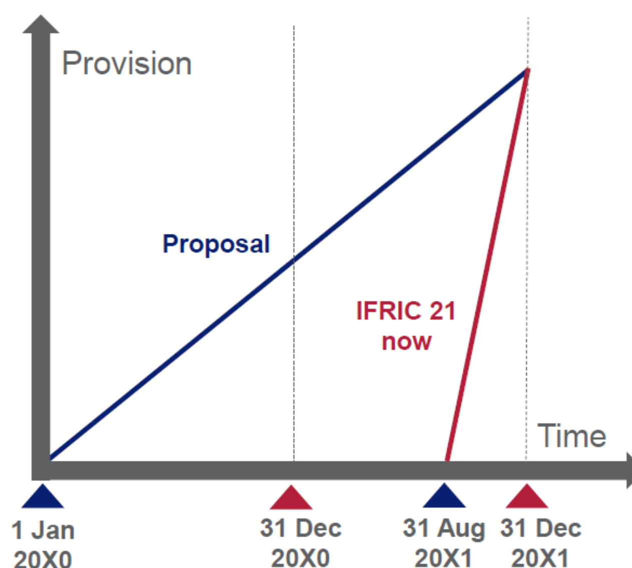
37. The ED proposals change the recognition criteria for these costs as regardless of whether the measure of the entity's activity is below or above the threshold, the fact that the entity has carried out activity that takes it towards the threshold affects the costs it might incur. An entity whose activity is closer to the threshold might incur a cost that it would not have incurred without that activity.

38. Applying the proposed amendments would not necessarily result in a provision being recognised before its activity exceeded the threshold. A provision is only recognised if other recognition criteria are met:
    - Probable transfer – that is probable that activity will exceed threshold, and

- Amount can be reliably estimated – that is the entity can make a forecast of the total activity for the measurement period that was sufficiently reliable to use in recognising the provision.

39. In general, under these proposals, a provision is recognised and built up over time as the related specified activity occurs, rather than once the threshold is crossed. This will mean an earlier recognition of costs and provisions.

40. The changes in the timing of recognition of provisions is illustrated in the following diagram, where the proposals would result in earlier recognitions of a provision over time as the threshold is being met, rather than a point-in-time recognition when the threshold is met.



41. We note that the ED results in a fundamental change in the recognition of these types of provisions and will result in the recognition of these provisions has been brought forward through the proposed requirements, if the other recognition criteria are also met. The ED principles appear to assume that the activity which drives the provision occur evenly and accumulatively over the period, however there may be situations where the activity fluctuates, and the resulting obligation does not build up evenly over time.

42. However, the requirements (paragraph 14P) note 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. 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 would be released.

43. Overall, the changes proposed appear to be reasonable to support the accrual basis of accounting and allow for provisions to be recognised over time as the underlying activity occurs while also considering the portion of actual activity performed to date compared to the overall activity needed to result in the transfer of economic resources. As above, this would bring the accounting for these types of specific provisions in line with other types of provisions.

44. As above, we note that any material judgements and estimates around 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 once IFRS 18 *Presentation and Disclosure in Financial Statements* is effective).

- ***Improving the wording of the requirements for restructuring costs***

Current IAS 37 requirements	**Proposed ED requirements (Paragraphs 72)**
The current requirements explain how to apply the general recognition criteria to restructuring provisions (paragraph 72). 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 is main features to those affected by it.	The proposals explain the restructuring provisions are a present obligation for the costs of a restructuring and removes references to "constructive obligation to restructure". This is to reinforce that: • Restructuring is an activity implemented for the benefit of the entity, not an obligation owed to another party; • The obligations arising from a restructuring are not necessarily constructive; and • The obligations are present obligations (meaning the past-event condition is met).

45. The current requirements may be misunderstood as implying that the public announcement of a plan is enough to satisfy the past-event criterion and thus create a present obligation.

46. The IASB have noted that some stakeholders have also interpreted the requirements as suggesting that an entity that has publicly announced a plan to change its operations in the future—for example, a plan to reduce its annual greenhouse gas emissions in future years—they should recognise a provision for the future costs of changing its operations, as noted through questions raised to the IFRS Interpretations Committee (refer to paragraph BC49).

47. The IASB has concluded that the requirements in IAS 37 are such that, for a provision to be recognised it is not sufficient that the entity has announced or started to implement a formal restructuring plan. It is necessary that the costs included in the provision arise from past activities of the entity (for example, past employment of workers who will be made redundant).

48. This requirement is already 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. The ED proposals explain the requirements for restructuring provisions more clearly

and reduce the risk of inappropriate analogies being drawn from the requirements. The amendments are not intended to change the requirements for restructuring provisions.

49. We have not identified any significant concerns with the ED proposals and the clarifications around restructuring provisions reinforce the IASB's intentions that public announcements for future actions is not sufficient on its own to result in the recognition of a provision.

Question for the Board:
Q1. Does the Board have any comments or concerns with the ED proposals around the conceptual framework changes?

Amendments to measurement requirements

50. The aim of the proposed amendments to the measurement requirements is to clarify the costs to be included in provision calculations, and to reduce diversity in the rates entities use to discount future expenditure to its present value, thereby enhancing the comparability of their financial statements.

- ***Costs to include within the provision's calculation***

Current IAS 37 requirements	Proposed ED requirements (Paragraph 40A)
The current requirements note provisions should be measured at best estimate of expenditure required to settle present obligation. For onerous contracts only, the current requirements note all costs of fulfilling a contract should be included, which comprises the costs that relate directly to the contract.	The proposals require the expenditure to be included within the provision calculation is only costs that 'relate directly' to the obligation and includes incremental costs of settling that obligation and allocations of other costs that relate directly to settling obligations of that type (for example, an allocation of the depreciation charge for an item of plant or equipment used in settling a provision).

51. The ED proposals extend the existing requirements around the costs which should be included in the provision calculations which currently apply to the measurement of onerous contracts (as previously decided upon by IASB in May 2020) to all types of provisions.

52. We have not identified any significant concerns with the ED proposals around including costs within the provision calculation, as this still follows the same established principle of including complete costs when estimating provisions. The principles around ensuring provisions are complete and accurate and encompass the whole costs required to fulfil the obligation appear to be reasonable and can be applied to a wide range of potential provisions and costs, rather than only onerous contracts.

- ***Discount rates***

Current IAS 37 requirements	**Proposed ED requirements (Paragraphs 47-47A)**
The current requirements note expenditure is discounted at a rate that reflects the time value of money and risks specific to the liability (excluding risks which are already reflected in the cash flows themselves).	The proposals require the discount rate reflects the time value of money as represented by a risk-free rate, and risks in expenditure required to be settle the obligation (excluding risks which are already reflected in the cash flows themselves), but explicitly does not include non-performance risk. Disclosure requirements have also been added to ensure discount rates used are the approaches used to determine them are disclosed.

53. Currently some entities use risk-free rates whereas others use rates that reflect 'non-performance risk'—the risk that the entity will not settle the liability. Rates that reflect non-performance risk are higher than risk-free rates and result in smaller provisions.

54. The IASB noted that it could be equally reasonable for an entity to discount a provision at a rate that excludes or that includes non-performance risk. Both rates can be justified conceptually and result in information that could be useful to users and can be viewed as consistent with the measurement objectives of IAS 37, and to reflect risks that are specific to the liability.

55. The ED proposes 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, without adjustment for non-performance risk. An entity could estimate an appropriate rate by reference to an observable market proxy for a risk-free rate.

56. The proposed amendments to the discount rate requirements would affect entities with provisions for which the effect of the time value of money is material. The entities most significantly 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, forestry and telecommunications sectors—that currently discount those provisions using a rate that reflects non-performance risk.

57. We consider the proposals to the discount rates to be reasonable, as the removal of non-performance risk specific to the provision:

    (a) Allows for provisions to be measured at a rate that can be determined objectively, by reference to an observable market rate. The non-performance risk specific to a provision is not observable and any estimate of the adjustment required could be highly subjective.

(b) Avoids the counter-intuitive outcome of measuring provisions at an amount that reflects the entity's own credit standing. An entity with a weak credit standing would report a smaller liability than an entity with a stronger credit rate, solely due to having a higher discount rate to account for non-performance; and

(c) Ensure the discounting for provisions to reflect the pure time value of money without distortions for other risks. Entities with a provision do not pay the counterparty for accepting the non-performance risk, and other types of provisions, such as decommissioning and rehabilitation provisions try to minimise non-performance through potential fines and regulations.

58. We do not consider there will be significant issues with the ED proposals around discount rates, and the removal of non-performance risk adjustments will make the application of the discount rate simpler and less costly, and more reliable for users.

59. The new disclosure requirement to ensure the approaches used to determine discount rates are disclosed. These appear to be reasonable and provide useful information to users around how the methods used to determine discount rates. This is unlikely to require entities to incur significant additional costs, as the information would already be available to preparers.

Question for the Board:
Q2. Does the Board have any comments or concerns with the ED proposals around the amendments to measurement requirements?

Transition requirements

60. The IASB proposes in the exposure draft that an entity apply the proposed amendments retrospectively (Paragraphs 94B-94E) in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with two exceptions.

61. The first exception applies to the proposed amendment to the discount rate requirements affecting provisions for asset decommissioning, restoration or similar costs that are added to the cost of the related asset. The exception would permit an entity to apply a simplified retrospective approach, whereby in the year of transition the entity would:

- apply the amended requirements in IAS 37 to restate the provision at the start of the first period for which it provides comparative information; and
- apportion the amount by which it adjusts the provision at that date between the related asset and retained earnings:
- 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
- using current estimates of the useful life of the related asset.

62. The second exception would apply to the proposed amendment specifying the costs an entity would include in measuring a provision. The exception would require an entity to apply the proposed amendment:

    - only to obligations that exist on, or arise after, the beginning of the annual reporting period in which the entity first applies that amendment.
    - without restating comparative information, the entity would recognise the cumulative effect of applying the amendment as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

63. Given the changes in the recognition criteria for provisions through the ED, particularly for threshold-triggered costs, there is a risk that the retrospective approach may result in significant restatements if there are large multi-year triggered costs.

64. We note IFRS 18 is mandatory from 1 January 2027 and requires entities to think about the grouping of information in the financial statements. This may result in additional disclosures and transitional notes showing how the aggregation and disaggregation principles have been applied, which may be cause additional confusion if provision restatements due to the changes proposed in this ED are also processed at the same time.

65. We have not identified any other concerns with the transitional provisions, and the exceptions proposed in the ED appear to provide appropriate cost relief for entities to the two measurement changes and allows for this to be applied through a simplified retrospective approach on transition.

Question for the Board:
Q3. Does the Board have any comments or concerns with the ED proposals around transition requirements?

Consequential amendments to other standards

66. The IASB proposes consequential amendments to other IFRS Accounting Standards, including:

    (a) removing from IFRS 3 Business Combinations an exception to the recognition principle in that Standard; and

    (b) adding to IFRS 19 Subsidiaries without Public Accountability a requirement to disclose the discount rate(s) used in measuring a provision, but not to add a requirement to disclose the approach used to determine the rate(s).

Amendments to IFRS 3 Business Combinations

67. IFRS 3 contains principles for recognising assets and liabilities acquired in a business combination. This includes recognising the identifiable assets it has acquired and the liabilities it has assumed, recognising items that meet the definitions of an asset or a liability in the

Conceptual Framework; and subsequently, measuring those assets and liabilities in accordance with the applicable IFRS Accounting Standards.

68. Currently, the recognition requirements in IAS 37 and IFRIC 21 are not consistent with the *Concept*ual *Framework*. Some items that meet the definition of a liability in the *Concept*ual *Framework* do not meet the definition as applied in 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 that it has to derecognise immediately afterwards.

69. To avoid this, paragraphs 21A–21C in IFRS 3 provides 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.

70. The ED proposals amend the requirements supporting the present obligation recognition criterion in IAS 37, to make them consistent with the *Conceptual Framework*. Those amendments would eliminate the inconsistency between the IFRS 3 recognition principle and IAS 37 recognition criteria, rendering the exception in IFRS 3 redundant.

Amendments to IFRS 19 Subsidiaries without Public Accountability

71. The NZASB has decided not to adopt IFRS 19 into the New Zealand suite of accounting standards. Therefore, we have not analysed these amendments and do not plan to comment on this aspect of the ED.

72. We will consider whether any final IFRS 19 disclosure concessions should be incorporated into the New Zealand IFRS Reduced Disclosure Regime for Tier 2 entities in due course.

73. We consider the consequential amendments to IFRS 3 to be reasonable, given the changes proposed to IAS 37. The IFRS 19 amendments to require the discount rate to be disclosed but not the method used to determine the rate, appears, in principle, to be reasonable for the closely held users of Tier 2 entity financial statements in New Zealand.

Question for the Board:
Q4. Does the Board have any comments or concerns with the ED proposals around the consequential amendments to other standards?

Updated guidance on implementing IAS 37

Please note – The guidance on implementing IAS 37 is a separate ED document (Agenda Item 8.3) but is consulted upon in the same ED as the proposed IAS 37 changes (Agenda Item 8.2).

74. The ED proposes the withdrawal of IFRIC 6 *Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies* and proposes updates to the separate *Guidance on implementing IAS 37*.

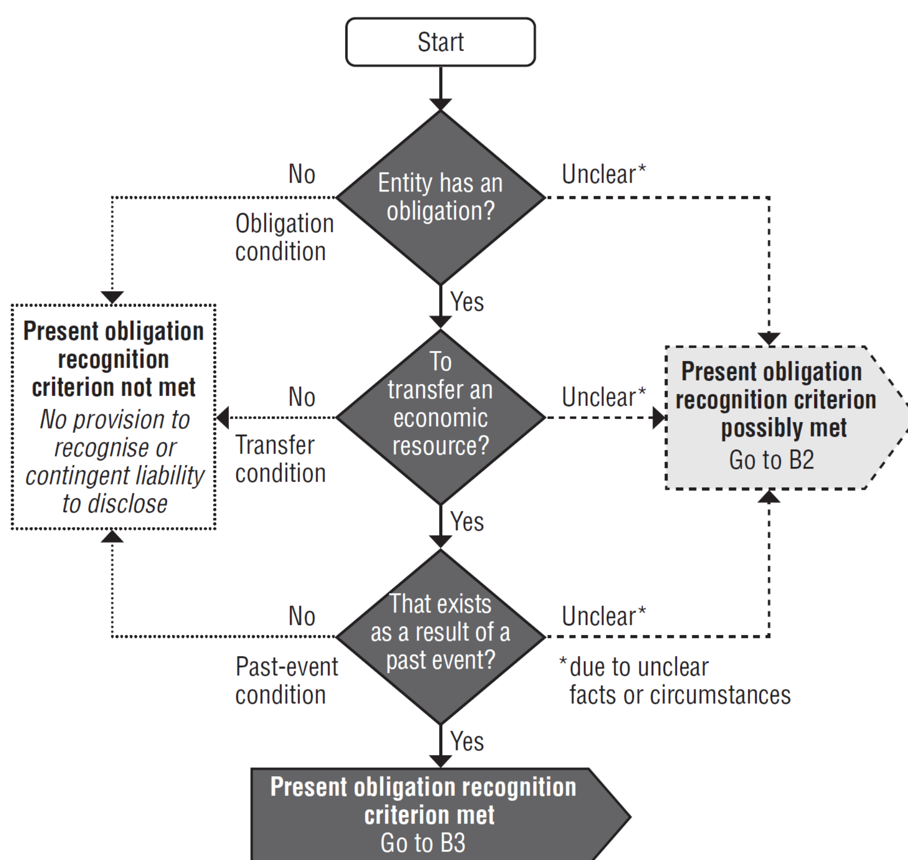
75. The proposed amendments to the *Guidance on implementing IAS 37* includes:

(a) A decision tree demonstrating 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 types of fact patterns.

76. The proposed amendments to the present obligation recognition criterion would split the present obligation recognition criterion into three separate requirements: obligation, transfer and past-event requirements. The ED proposals expand the decision tree in the *Guidance on implementing IAS 37* to show how a step-by-step assessment of these three requirements would fit into the wider process, as shown below.

B1 **Present obligation recognition criterion (paragraphs 14(a) and 14A–16)**



77. The proposed new decision tree also shows more prominently the consequence of failing to meet the present obligation recognition criterion, namely that the entity has neither a provision nor a contingent liability. This is done to address a common misunderstanding that obligations which fails any of the criteria for recognising a provision is automatically a contingent liability.

78. The ED also proposes to add new illustrative examples which are based on fact patterns of which were previously considered by the IASB and the IFRS Interpretations Committee. These include examples based IFRIC 6, IFRIC 21, IFRIC final agenda decisions on *Negative Low Emission Vehicle Credits*, and final agenda decisions on *Climate-related Commitments*.

79. We consider the updated decision tree to be reasonable and breakdowns the judgement-making steps needed in determining a provision, in line with the updated disentangled requirements and definitions, and addresses potential misinterpretations. The new illustrative examples are also considered useful to users and outlines previous matters which were already within IFRIC decisions, so that precedence is not lost.

Question for the Board:
Q5. Does the Board have any comments or concerns with the ED proposals around updated guidance on implementing IAS 37?

SECTION B – COSTS AND BENEFITS SUMMARY

80. The following likely costs and benefits have been identified across the main changes proposed.

Proposed Amendment	Likely Costs	Likely Benefits
Updated liability definition.	None identified.	Lower ongoing costs from a single, clearer definition in IFRS Accounting Standards.
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.
New requirements leading to earlier and progressive recognition of some levies.	Initial application costs to understand 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, making it easier for them to assess an entity's future cash flows.
Withdrawal of IFRIC 6, IFRIC 21 and two agenda decisions and adding their fact patterns to the *Guidance on implementing IAS 37*.	Initial application costs to become familiar with the new structure.	Easier ongoing application from all IAS 37 requirements and guidance being consolidated in one place.
Specific 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, making it easier for them to assess an entity's future cash flows.

More specific discount rate requirements.	Initial application costs to change an accounting policy.	Less diversity in practice and subjectivity in measurements, improves comparability
Requirement for an entity to disclose the discount rates it uses and its approach to determining those rates.	Ongoing application costs for entities required to provide additional information.	Useful information for investors and increased transparency.

Question for the Board:
Q6. Does the Board have any comments on the likely costs and benefits of the ED proposals?

SECTION C – TIMELINES AND NEXT STEPS

81. Submissions to the IASB on this ED are due on **Wednesday 12 March 2025**. We plan to bring a draft comment letter for the Board to comment on and approve during the next meeting on Thursday 20 February 2025.

82. The definition and clarification updates do not appear to cause significant changes to the conceptual thinking and basis for provisions which are already established. However, there are proposed changes around threshold triggered costs (levies) and the measurement requirements for provision costs and discount rates, which may cause large impacts on companies that have large long-term asset decommissioning obligations. We will consider how our outreach can target feedback from these entities.

83. We will also look to apply the RDR approach to the entirety of the NZ IAS 37 disclosures, and consider whether any existing disclosures, and new disclosures proposed by the ED, should have RDR concessions for Tier 2 entities in due course.

Question for the Board:
Q7. Does the Board have any comments or concerns with the NZ outreach timeline for the ED proposals?

Additional Material

- Agenda Item 8.2 – Exposure Draft Provisions—Targeted Improvements—Proposed amendments to IAS 37
- Agenda Item 8.3 – Exposure Draft Provisions—Targeted Improvements—Proposed amendments to Guidance on implementing IAS 37
- Agenda Item 8.4 – Exposure Draft Provisions—Targeted Improvements—Basis for Conclusions

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

Exposure Draft IASB/ED/2024/8 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

from page

INTRODUCTION **4**

INVITATION TO COMMENT **7**

[DRAFT] AMENDMENTS TO IAS 37 *PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS* **10**

APPENDIX A—[DRAFT] MINOR AMENDMENTS TO IAS 37 **24**

APPENDIX B—[DRAFT] AMENDMENTS TO OTHER IFRS ACCOUNTING STANDARDS **28**

APPROVAL BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD OF THE EXPOSURE DRAFT *PROVISIONS—TARGETED IMPROVEMENTS* **33**

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.

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 <u>An executory contract is a contract, or a portion of a contract, that is equally unperformed—</u>~~Executory contracts are contracts under which~~ neither party has <u>fulfilled</u> ~~performed~~ any of its obligations~~,~~ or both parties have partially <u>fulfilled</u> ~~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 <u>to transfer an economic resource as a result of</u> ~~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.**

...

<u>Costs to include</u>

<u>40A</u> <u>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:</u>

<u>(a)</u> <u>the incremental costs of settling that obligation; and</u>

<u>(b)</u> <u>an allocation of other costs that relate directly to settling obligations of that type.</u>

...

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.

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

<table>
<tr><th>Type of amendment</th><th>IFRS Accounting Standard or guidance</th><th>Paragraphs</th></tr>
<tr><td rowspan="2">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.</td><td>Illustrative Examples on IAS 34 Interim Financial Reporting</td><td>B3–B4</td></tr>
<tr><td>IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities</td><td>3–4</td></tr>
<tr><td rowspan="3">Updated wording of references to the IAS 37 requirements on discount rates.</td><td>IFRS 1 First-time Adoption of International Financial Reporting Standards</td><td>D21(b)</td></tr>
<tr><td>Guidance on implementing IFRS 1 First-time Adoption of International Financial Reporting Standards</td><td>IG Example 201 (after paragraph IG203)</td></tr>
<tr><td>IFRIC 1</td><td>3–4</td></tr>
</table>

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The Exposure Draft *Provisions—Targeted Improvements* was approved for publication by all 14 members of the International Accounting Standards Board.

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IFRS® Accounting

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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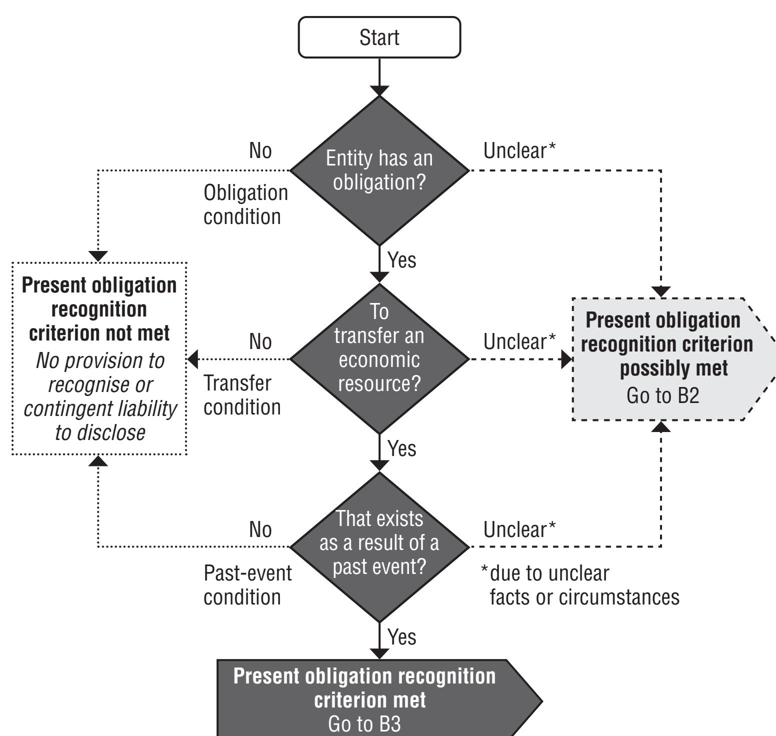
B Decision tree

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.

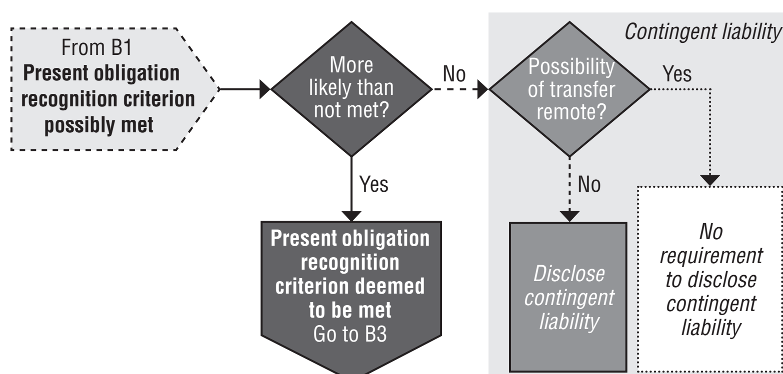
This three-part decision tree summarises the process of applying the three criteria for recognising a provision set out in paragraphs 14–26.~~The purpose of this diagram is to summarise the main recognition requirements of the Standard for provisions and contingent liabilities.~~

B1 Present obligation recognition criterion (paragraphs 14(a) and 14A–16)

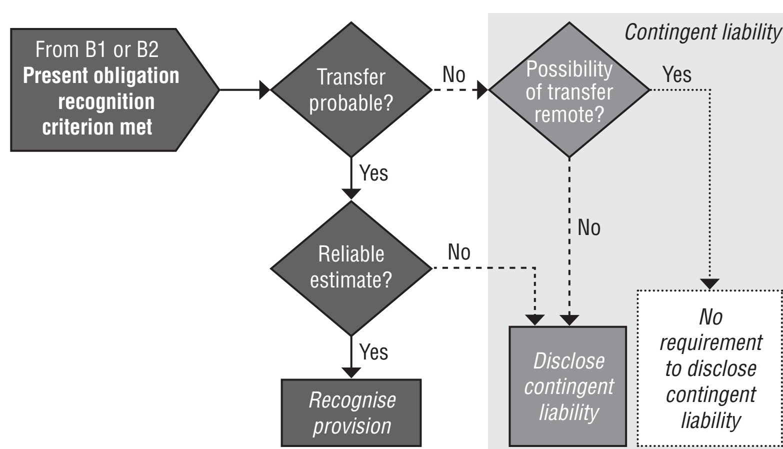


B2 Additional decision needed if it is unclear whether the present obligation recognition criterion is met (paragraphs 15–16)

~~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.

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 9/12ths 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

Basis for Conclusions on Exposure Draft *Provisions—Targeted Improvements*

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CONTENTS

	from paragraph
BACKGROUND	**BC1**
DEFINITIONS AND PRESENT OBLIGATION RECOGNITION CRITERION	**BC3**
Reasons for proposing amendments	**BC4**
Revisions to the *Conceptual Framework*	**BC17**
Proposed amendments to IAS 37	**BC21**
Proposed amendments to the *Guidance on implementing IAS 37*	**BC55**
MEASUREMENT—EXPENDITURE REQUIRED TO SETTLE AN OBLIGATION	**BC63**
MEASUREMENT—DISCOUNT RATES	**BC67**
Determining the discount rate	**BC67**
Application guidance	**BC81**
DISCLOSURE—DISCOUNT RATES	**BC83**
WITHDRAWAL OF IFRIC 6 AND IFRIC 21	**BC86**
TRANSITION REQUIREMENTS	**BC87**
Entities applying IFRS Accounting Standards	**BC87**
First-time adopters of IFRS Accounting Standards	**BC99**
DISCLOSURE—SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY	**BC101**
CONSEQUENTIAL AMENDMENTS TO OTHER IFRS ACCOUNTING STANDARDS	**BC106**
Consequential amendment to IFRS 3	**BC107**
COSTS AND BENEFITS OF THE PROPOSED AMENDMENTS	**BC111**
APPENDIX A—FUNCTIONS AND SOURCES OF PROPOSALS IN PARAGRAPHS 14A–16	
APPENDIX B—NON-PERFORMANCE RISK—CONCEPTUAL CONSIDERATIONS	

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

(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:

(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*.

(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]

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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]

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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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XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 9.1

Memorandum

Date:	4 October 2024
To:	NZASB Members
From:	Jamie Cattell
Subject:	**Concessionary leases–PBE Policy Approach**

COVER SHEET

Project overview

Project purpose	For the PBE Leases project overall: To introduce the right-of-use (ROU) model (based on IFRS 16) into PBE Standards. For this part of the project: To develop appropriate accounting requirements for concessionary leases, ROU assets in-kind and other arrangements conveying rights over assets in New Zealand.
Cost/benefit considerations	As outlined in this memo, we expect the costs of developing a PBE Standard based on *Concessionary Leases and Other Arrangements Conveying Rights over Assets* to exceed the benefits – and that this would also be the case for developing a domestic standard on this topic.
Project priority	**Medium** Concessionary leases and other arrangements conveying rights over assets are common for New Zealand PBEs. Previous proposals in relation to concessionary leases have been contentious and have been met with strong disagreement among New Zealand stakeholders.

Overview of agenda item

Project status	Consultation Paper → (Comment letter) → Exposure Draft → (Comment letter) → International pronouncement → (PBE policy approach) → Domestic Exposure Draft → Due Process → Final NZ pronouncement International / New Zealand
Board action required	**High complexity** CONSIDER the staff's application of the PBE Policy Approach to *Concessionary Leases and Other Arrangements Conveying Rights over Assets*. AGREE with staff's recommendation NOT to develop a PBE Standard based on this IPSASB pronouncement and NOT to commence a project to develop a domestic standard.

Introduction[1]

1. In October 2024, the IPSASB issued *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) (the "IPSASB pronouncement"). In accordance with the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach), the Board is required to consider if and when to incorporate this IPSASB pronouncement into the suite of PBE Standards as issued by the XRB.

2. We note that in 2023 the Board agreed to develop a PBE Standard based on IPSAS 43 *Leases* for public sector public benefit entities (PBEs). While we intend to reconfirm this decision with the Board at a future meeting, this paper has been written based on the decision previously made.

3. Agenda item 9.1A contains summary decision charts which set out the process we followed to arrive at the decisions made in this memo. Agenda item 9.3 contains the full text of the IPSASB pronouncement. Appendix A sets out the history of the leases project to date.

Recommendation

4. We recommend that the Board:
   (a) CONSIDERS the staff's application of the PBE Policy Approach to the IPSASB pronouncement;
   (b) AGREES NOT to commence a project to develop a PBE Standard, using the IPSASB pronouncement (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) as a starting point; and
   (c) AGREES NOT to commence a domestic project on accounting for concessionary leases and other rights over assets.

Structure of this memo

5. The remaining sections of this memo are:
   (a) Background
   (b) Summary of the amendments in the IPSASB pronouncement
   (c) NZ feedback from phase two of the leases project
   (d) Application of the PBE Policy Approach
   (e) Actions to take when rebutting the presumption to adopt the IPSASB pronouncement
   (f) Next steps
   (g) Appendix A: Leases project timeline
   (h) Appendix B: Detailed explanation of the requirements in *Concessionary leases and Other Arrangements Conveying Rights over Assets*

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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® Standards, IFRIC® Interpretations and IASB® papers).

Background

6. This section includes only background information directly related to considering the adoption of the IPSASB pronouncement. A full timeline of the leases project to date has been included in Appendix A for context.

7. At its August 2023 meeting, the Board considered the information gathered as part of the detailed effects analysis undertaken by staff, which focused on the expected costs and benefits of applying PBE IPSAS 43 *Leases* in the public and not-for-profit (NFP) sectors.

8. Based on the results of the effects analysis and staff recommendations, the Board agreed to commit to finalising PBE IPSAS 43 for application by the public sector, but to defer the finalisation, taking into account holistically the full NZASB work programme for public sector entities, including the expected timing of issuing other major new standards. The Board noted that this deferral would enable the finalised version of PBE IPSAS 43 to be informed by the IPSASB's work on concessionary leases, which was yet to be completed at the time. The deferral would allow time to address certain challenges and uncertainties before finalising PBE IPSAS 43, including the following:

    (a) clarifying the scope of the Standard with respect to concessionary leases, ROU assets in-kind and other arrangements conveying rights over assets;

    (b) developing specific requirements for concessionary leases in light of the IPSASB's future pronouncement on this topic;

    (c) considering simplifications and practical expedients based on the experience of other jurisdictions; and

    (d) monitoring the outcomes of the post-implementation review (PIR) of IFRS 16.

9. The Board also agreed to commit to maintaining the current lease accounting practice for NFP public benefit entities (PBEs), where only finance leases are recognised on the statement of financial position, until after the public sector has adopted PBE IPSAS 43 *Leases*, at which point the Board will reconsider that decision. The Board agreed to follow this approach considering the following feedback from the NFP sector:

    (a) There is limited user-demand for the ROU model in the NFP sector;

    (b) There are significant concerns about the cost and complexity of applying PBE IPSAS 43 for NFP PBEs; and

    (c) There are lingering questions about the usefulness of the information that would be reported under the ROU model for NFP PBEs.

10. In May 2024, the XRB submitted comments on IPSASB ED 88 *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48). The XRB submission reiterated the Board's disagreement with the proposals raised in response to ED 84 and made further suggestions in relation to the new content in ED 88. The full submission can be found here.

11. In October 2024, the IPSASB issued the IPSASB pronouncement, which addresses the accounting for concessionary leases, ROU assets in-kind, and other arrangements conveying rights over assets. This pronouncement finalises the IPSASB's work on the leases project and provides the clarity that the Board was seeking before finalising PBE IPSAS 43 for application in the public sector.

Summary of the amendments in the IPSASB pronouncement

12. The IPSASB pronouncement introduces requirements for accounting for concessionary leases, ROU assets in-kind, and other arrangements conveying rights over assets. The key aspects are described below and a full explanation is included in Appendix B:

Definition and Scope

(a) Defines concessionary leases as leases granted or received at below-market terms.

(b) Applies to both lessees and lessors in concessionary lease arrangements.

(c) Includes guidance on ROU assets in-kind, which are accounted for similarly to concessionary leases.

Requirements for Lessees

(a) *Measurement of ROU asset*: At the present value of market lease payments.

(b) *Practical expedient:* Allows use of contractual payments in the measurement of the ROU asset if market rates are not readily available.

(c) *Lease liability:* Measured in accordance with existing IPSAS 43 requirements.

(d) *Concessionary component:* Recognised as revenue, unless a compliance obligation exists.

(e) *Specific disclosure requirements*: the amount of concession on initial recognition, contractual payments when market rates are unavailable, purpose and terms of concessionary leases, and significant assumptions in estimating market lease payments.

Requirements for Lessors

(a) Finance leases: Apply existing IPSAS 43 requirements without modification.

(b) Operating leases: Recognise revenue as per IPSAS 43 requirements.

(c) For both types: Do not recognise foregone revenue represented by the difference between market and contractual lease payments.

(d) Specific disclosure requirements include carrying amount of transferred assets, net investment in finance leases, lease revenue, costs associated with underlying assets, and purpose and terms of concessionary leases.

ROU Assets In-kind

(a) While not considered leases due to lack of consideration, they are accounted for similarly to concessionary leases, with nil lease liability.

(b) Revenue recognised equal to the value of the ROU asset.

NZ feedback from phase two of the leases project

13. In April 2023 we discussed the feedback received on ED 84 *Concessionary Leases and Right-of-use Assets In-kind* with the NZASB. We also received submissions which discussed the accounting for concessionary leases during our consultation on the New Zealand Exposure

Draft PBE IPSAS 43 *Leases*. The feedback received raised significant concerns with the IPSASB's proposals across several key areas.

14. The main issues raised can be categorised into four main areas: broad conceptual concerns, cost-benefit considerations, measurement and recognition issues, and disclosure preferences.

Conceptual Concerns

15. Respondents expressed significant concerns about the lack of a clear conceptual basis for the proposals in ED 84. There was a common sentiment that the IPSASB had not provided sufficient justification for the proposed accounting treatment, particularly in the context of public sector entities. This lack of conceptual clarity was seen as a fundamental issue that could lead to inconsistent application and interpretation of the standard.

    (a) *Nature of concessionary leases in public sector context* - Respondents highlighted the unique nature of concessionary leases in the public sector, arguing that they often differ fundamentally from private sector leases. Many suggested these arrangements might be better characterised as operating subsidies or services in-kind, rather than financing transactions. Feedback emphasised the non-monetary benefits and strategic considerations associated with these leases, noting that they frequently serve broader economic and social objectives not adequately captured by traditional lease accounting.

    (b) *Need for guidance on diverse public sector rights-of-use arrangements* - Feedback indicated a strong desire for more comprehensive guidance on the diverse range of rights-of-use arrangements common in the public sector. Respondents suggested that a more nuanced approach, potentially incorporating a property rights framework, would better reflect the realities of public sector operations. This included calls for specific guidance on arrangements involving nominal or no consideration, which are particularly prevalent in sectors such as education.

Cost-Benefit Considerations

16. A consistent theme across the feedback was concern that the costs would exceed the benefits of implementing the proposals in ED 84. In addition to general concerns, the following specific concerns were raised:

    (a) *Determining market rates* - Respondents considered that determining market rates for specialised or restricted-use assets would be particularly costly and challenging. This was seen as especially problematic for entities with numerous concessionary leases.

    (b) *Potential for lowered compliance due to complexity* - Related to the general cost-benefit concerns, respondents considered the proposals would create a risk for lowered compliance due to the increased complexity of the proposals.

    (c) *Limited unmet user needs* - Targeted consultation indicated that there were not currently significant unmet user needs in relation to concessionary leases. It was noted that existing mechanisms in legislation already allow users to obtain information about concessionary leases if needed. Respondents also considered that users would be more interested in how the service potential of the underlying asset in a concessionary release is being managed, rather than how any ROU asset is being used. As the underlying asset in a concessionary lease typically remains recognised by the lessor, the service potential is already being measured and managed.

(d) *Limited impact on financial management* - Stakeholders generally did not consider the current accounting for concessionary leases to undermine effective public financial management. It was noted that robust governance processes are often already in place for granting and managing concessionary leases in the public sector.

Measurement Issues

17. Respondents expressed significant disagreement with the proposed measurement and recognition approach for concessionary leases and similar arrangements.

(a) *Disagreement with market-based approach for initial measurement* - There was strong disagreement with the proposed market-based approach for initial measurement of ROU assets in concessionary leases. Respondents cited multiple reasons for this, including the challenges in determining market rates for specialised assets and the potential for the concessionary amount to be the market rate in some public sector contexts.

(b) *Concerns about misleading revenue recognition* - Feedback highlighted concerns about potentially misleading revenue recognition in the proposed model. Respondents argued that recognising revenue for the concessionary component of leases could misrepresent an entity's financial performance and position. They explained that recognising a large amount of "non-exchange" revenue in the first year, followed by a long series of depreciation or amortisation, may not help users understand an entity's financial performance, how it uses its resources to advance its policy objectives, and could diminish the value of general purpose financial reports.

Disclosure Preferences

18. Respondents expressed a clear preference for enhanced disclosures over complex recognition and measurement requirements. Feedback included:

(a) *Support for enhanced qualitative disclosures* - A recurring theme in the feedback was a preference for enhanced qualitative disclosures rather than complex recognition and measurement requirements. Respondents suggested that narrative explanations about the nature and purpose of concessionary leases would provide more useful information to users of financial statements.

(b) *Need for explanations of concession nature and purpose* - Related to the preference for qualitative disclosures, there were calls for requirements to explain the types and purposes of concessionary arrangements. This was seen as particularly important for understanding the broader economic and social objectives of these arrangements in the public sector context.

(c) *Importance of disclosing revenue foregone by public sector lessors* - Feedback highlighted the importance of disclosing revenue foregone by public sector lessors, especially when leasing to commercial entities. This was seen as crucial information for understanding the full economic impact of concessionary leases from the lessor's perspective.

(d) *Utilisation of existing disclosure frameworks* – Targeted consultation indicated that respondents considered existing disclosure requirements (such as those in relation to service performance reporting, related party transactions, and going concern), already capture much of the relevant information about concessionary leases. There was a

suggestion to focus on enhancing these existing disclosures rather than introducing new recognition and measurement requirements.

19. The IPSASB pronouncement, largely maintained the proposals from ED 84 without significant alterations. Therefore, the feedback received from New Zealand stakeholders outlined above, remains relevant when applying the PBE Policy Approach to the IPSASB pronouncement.

Application of the PBE Policy Approach

20. The PBE Policy Approach identifies triggers for changes to PBE Standards. One of these triggers is the IPSASB issuing a new IPSAS. In considering whether to initiate a development, the Board must consider the factors in the development principle, as follows:

    (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP entities, including public sector PBE groups and NFP groups, than would be the case if the development was not made.

    (b) Whether the benefits of a potential development will outweigh the costs (with minimum considerations noted in Table 3).

21. Paragraphs 22–24 of the PBE Policy Approach establishes a rebuttable presumption that the Board will adopt a new or amended IPSAS. The PBE Policy Approach states that it is expected that the adoption of a new or amended IPSAS will lead to higher quality financial reporting by public benefit entities (PBEs) in New Zealand and the factors in the development principle are presumed to be met.

22. Rebutting the presumption is expected to occur only in exceptional circumstances. Examples of such circumstances include where the Board has significant concerns that, in the New Zealand context:

    (a) adoption of a new or amended IPSAS would not be either appropriate or relevant (based on the development principle); and

    (b) the costs of adoption of a new or amended IPSAS would outweigh the benefits to users of PBE financial reports.

23. Table 1 below sets out our assessment of the factors in the development principle, as they apply to the IPSASB pronouncement.

Table 1 – Assessment of the factors in the development principle

Factor	Assessment
Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made. In this context, high quality financial reporting is assessed by reference to the conceptual framework for PBEs (as it applies from time to time), with primary emphasis on the objective of financial reporting and then the qualitative characteristics. A standard is more likely to lead to higher quality financial reporting if it adheres closely to the conceptual framework (paragraph 8 of the PBE Policy Approach).	Adopting the IPSASB pronouncement ('the IPSASB pronouncement') is unlikely to lead to higher quality financial reporting for PBEs in New Zealand for the following reasons: 1. **Lack of clear conceptual basis**: New Zealand stakeholders who responded to IPSASB ED 84 ('respondents') expressed significant concerns about the lack of a clear conceptual foundation for the proposals as finalised in the IPSASB pronouncement . This lack of conceptual clarity could lead to inconsistent application and interpretation, potentially reducing the quality of financial reporting. 2. **Misalignment with public sector context**: The IPSASB pronouncement does not adequately capture the unique nature of concessionary leases in the public sector. Many respondents suggested these arrangements might be better characterised as operating subsidies or services in-kind rather than financing transactions. The IPSASB pronouncement fails to reflect the non-monetary benefits and strategic considerations associated with these leases, which often serve broader economic and social objectives. 3. **Inadequate guidance**: The IPSASB pronouncement lacks comprehensive guidance on the diverse range of rights-of-use arrangements common in the public sector. Respondents called for a more nuanced approach, potentially incorporating a property rights framework, to better reflect public sector realities. 4. **Measurement challenges**: The market-based approach for initial measurement of ROU assets in concessionary leases may not be appropriate or feasible for specialised assets in the public sector. Respondents highlighted significant difficulties in determining market rates for specialised or restricted-use assets. 5. **Potential for misleading information**: The proposed recognition of revenue for the concessionary component of leases could misrepresent an entity's financial performance and position, potentially reducing the reliability and faithful representation of financial information. 6. **Complexity vs. usefulness**: The increased complexity introduced by the standard may not translate to more useful information for users of PBE financial statements. Respondents expressed a clear preference for enhanced qualitative disclosures over complex recognition and measurement requirements.

<table>
<tr><th>Factor</th><th>Assessment</th></tr>
<tr><td></td><td>7. Limited impact on financial management: Stakeholders generally did not consider the current accounting for concessionary leases to undermine effective public financial management, suggesting that the proposed changes may not lead to significant improvements in this area.

8. Potential for lowered compliance: The increased complexity of the proposals creates a risk for lowered compliance, which could negatively impact the overall quality and reliability of financial reporting in the sector.</td></tr>
<tr><td>Whether the benefits of a potential development will outweigh the costs, considering as a minimum:

(i) relevance to the PBE sector as a whole: for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;

(ii) relevance to the not-for-profit or public sector sub-sectors: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;

(iii) coherence: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);

(iv) the impact on mixed groups.</td><td>The costs of adopting the IPSASB pronouncement are likely to outweigh the benefits:

<u>Relevance to the PBE sector as a whole</u>

• While concessionary leases are relevant to the public sector, the IPSASB pronouncement's approach may not adequately reflect the nature and purpose of these arrangements in the New Zealand context. The public sector often uses these leases to achieve policy objectives, which may not be well-represented by the proposed accounting treatment.

• While the subject of the IPSASB pronouncement is relevant to the NFP sector, the Board has previously committed to maintaining current practice for NFP entities. Therefore, the IPSASB pronouncement is not relevant to the NFP sector at this time.

<u>Relevance to the not-for-profit or public sector sub-sectors</u>

• The IPSASB pronouncement may not meet the specific needs of public sector users, as it fails to capture the non-monetary benefits and strategic considerations associated with concessionary leases in this sector.

• There is a lack of guidance in the IPSASB pronouncement on diverse rights-of-use arrangements common in the public sector, such as those involving nominal or no consideration, limiting its relevance and potentially leading to inconsistent application across entities.

• Targeted consultation indicated limited unmet user needs in relation to concessionary leases. Existing mechanisms in legislation already allow users to obtain necessary information about concessionary leases.</td></tr>
</table>

	Costs vs. Benefits • Significant costs would be incurred in determining market rates for specialised or restricted-use assets, especially for entities with numerous concessionary leases. This could be particularly burdensome for smaller public sector entities with limited resources. • The complexity of the IPSASB pronouncement could lead to increased implementation and ongoing compliance costs, including potential system changes, staff training, and additional audit fees. • These costs may not be justified given the preference expressed by respondents for enhanced qualitative disclosures over complex recognition and measurement requirements. • Users are reportedly more interested in how the service potential of the underlying asset in a concessionary lease is being managed, rather than how any ROU asset is being used. As the underlying asset typically remains recognised by the lessor, the service potential is already being measured and managed. Coherence • Adopting the IPSASB pronouncement might introduce inconsistencies with the current treatment of similar arrangements in the PBE suite of standards, potentially reducing overall coherence. Impact on mixed groups • This factor is less relevant as the standard primarily affects public sector entities who are mostly classified as PBEs for accounting purposes. However, if adopted, it could potentially create additional complexity when consolidating public sector for-profit entities such as Kiwirail and Air New Zealand.. Other considerations • Existing disclosure requirements (e.g., service performance reporting, related party transactions, going concern) already capture much of the relevant information about concessionary leases. • Robust governance processes are often already in place for granting and managing concessionary leases in the public sector.

Factor	Assessment
	Given these considerations, developing a domestic standard that addresses the specific needs and context of New Zealand PBEs appears to be a more cost-effective and beneficial approach than adopting the IPSASB pronouncement. A domestic standard could: • Better reflect the unique nature of concessionary leases in the New Zealand public sector; • Focus on enhancing existing disclosure requirements rather than introducing new complex recognition and measurement requirements; • Provide more relevant and useful information to users of PBE financial statements; • Be tailored to address the specific concerns raised by New Zealand respondents; • Potentially reduce compliance costs by focusing on enhanced disclosures rather than complex recognition and measurement requirements; and • Maintain better coherence with the existing suite of PBE standards and conceptual framework.

24. Based on the factors outlined in Table 1, our recommendation is NOT to commence a project to develop a PBE Standard using the IPSASB pronouncement as a starting point, because:

    (a) adoption is unlikely to result in a higher quality of financial reporting; and

    (b) the benefits of applying the requirements in the IPSASB pronouncement are unlikely to outweigh the costs to New Zealand stakeholders.

Question for the Board

Q1. Does the Board AGREE NOT to commence a project to develop a PBE Standard using the IPSASB pronouncement as a starting point?

25. Paragraph 26 of the PBE Policy Approach states that, in the event that the presumption to adopt a new or amended IPSAS is rebutted, the Board is required to report to the XRB Board:

    (a) its decision and rationale for the decision, including reference to the relevant factors of the development principle; and

    (b) what, if any, action(s) it plans to take in relation to the new or amended IPSAS (e.g., whether a domestic standard will be developed and whether parts of the new or amended IPSAS will be incorporated into that domestic standard).

26. If the Board agrees with our recommendation, we will draft an update to the XRB Board, setting out the decision as well as a summary of the analysis in Table 1. The next sections of this memo address the requirement in the PBE Policy Approach outlined included in paragraph 37(b) above.

Actions to take when rebutting the presumption to adopt the IPSASB pronouncement

27. Assuming that the Board's agrees not to adopt the IPSASB pronouncement into the PBE suite of standards, we have considered three potential options for next steps as outlined in Table 2 below. Please note that these options relate to public sector PBEs only (as explained above, the Board previously agreed to commit to the stability of the current lease accounting requirements remaining in place for NFP PBEs at this time).

Table 2 – Options for next steps

Option	Pros	Cons
1. Do nothing Take no further action on concessionary leases and other arrangements conveying rights over assets (If the scope of PBE IPSAS 43 remains as currently drafted, then under this option the ROU model requirements would still apply to concessionary leases that meet the definition of a lease, but using contractual lease payments and not market rates.)	• Aligns with stakeholder feedback indicating no significant issues with current practice. • Recognises that robust governance processes are already in place • No additional costs or complexity for entities from having to determine market rates for concessionary leases or make other changes to current disclosures. • Avoids potential issues with determining market rates which can be complex and subjective for specialised assets.	• May perpetuate some existing variation in practice between entities • Could miss opportunity to provide additional guidance on complex arrangements
2. Develop a disclosure-only domestic standard Create a new standard/requirements within draft PBE IPSAS 43 *Leases* focused on enhanced disclosures for concessionary leases and similar arrangements (If the scope of PBE IPSAS 43 remains as currently drafted, for concessionary leases that meet the definition of a lease, the disclosures under this	• Aligns with stakeholder preference for enhanced qualitative disclosures rather than recognition and measurement changes. • Could improve transparency via explanations of the nature and purpose of concessionary leases. • Provides flexibility to address diverse public sector arrangements through tailored disclosures.	• Would increase compliance costs without clear, significant benefits. • May not fully capture the economic substance of some arrangements as assets and liabilities are not recognised at market based values. • Could result in some loss of comparability between entities if disclosures are not sufficiently standardised.

Option	Pros	Cons
option would be required in addition to the requirement to apply the ROU model based on contractual lease payments.)	• Would promote trans-Tasman alignment with AASB 16 approach.	
3. Develop a comprehensive domestic standard Create a new standard addressing all aspects of recognition, measurement and disclosure for rights over assets	• Would provide a comprehensive framework for all rights over assets and eliminate remaining gaps in current accounting requirements improving consistency. • Could potentially improve consistency in accounting for similar arrangements and enhance comparability.	• Likely to exacerbate cost-benefit concerns, especially if we require market rate determination or complex criteria for various rights over assets. • May introduce unnecessary complexity and a risk of unintended consequences. • Could potentially increase disclosure volume and reduce understandability of financial statements without sufficient benefit. • Most resource-intensive and time-consuming option and likely to be excessive in the context of feedback that there are no issues with the current accounting requirements.

AASB requirements and trans-Tasman alignment

28. In February 2023 we outlined the approach adopted by the Australian Accounting Standards Board (AASB) when developing when developing requirements for concessionary leases in the NFP sector (in Australia, this term refers to the public sector and private not-for-profit sector). We considered that their approach, could provide a useful reference point for developing New Zealand-specific requirements.

29. We also reviewed some financial statements from entities in the NFP sector in Australia to demonstrate how these disclosure requirements were being applied in practice. The extracts provided at that meeting have been included in Appendix C for reference.

30. AASB 16 allows NFP entities an accounting policy choice for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives. These entities can choose to:

    (a) Measure ROU assets at fair value; or

    (b) Measure ROU assets at cost (based on the present value of the contractual lease payments) with additional disclosures.

31. Despite providing this option, most entities elect to measure their ROU assets in concessionary leases at cost with supporting disclosures.

32. Where an entity elects to measure ROU assets at cost, AASB 16 requires disclosure of additional qualitative and quantitative information about these leases. This includes information to help users assess:

    (a) The entity's dependence on concessionary leases; and

    (b) The nature and terms of the leases, including lease payments, lease term, description of underlying assets, and any restrictions on use.

33. Developing similar disclosure requirements in New Zealand could promote trans-Tasman alignment. However, following our review of Australian NFP sector financial statements it appears that when entities elect to measure their concessionary leases at cost, the additional disclosures are generally high-level and in practice they offer little insight into the concessionary leases held by the entities.

34. The limited usefulness of these disclosures in practice in Australia raises questions about whether implementing similar requirements would provide meaningful information to users in the New Zealand context. This is particularly relevant given the feedback from our stakeholders indicating that existing mechanisms already provide adequate information about concessionary leases.

Recommendation

35. Based on the analysis above and the feedback received from stakeholders, we recommend that the Board agree NOT to develop any domestic requirements, to be included in PBE IPSAS 43 *Leases*, addressing concessionary leases and other arrangements conveying rights over assets as set out in Option 1.

Questions for the Board

Q2. Does the Board AGREE with the staff recommendation NOT to develop any domestic requirements, to be included in PBE IPSAS 43, addressing concessionary leases and other arrangements conveying rights over assets (Option 1)? If not, which alternative approach does the Board prefer and why?

Next steps

36. If the Board agrees with the recommendations in this memo, we will draft a memo to the XRB Board setting out the Board's decision not to develop either a PBE Standard based on the IPSASB pronouncement or a domestic standard on concessionary leases and other arrangements conveying rights over assets for the rationale outlined above.

37. As it has been some time since the Board agreed to develop a PBE Standard based on IPSAS 43 for public sector PBEs, we also intend to reconfirm this decision at a future meeting in 2025. This will allow the Board to ensure they are comfortable that the benefits of introducing a standard exceed the costs in the current New Zealand context.

Attachments

Agenda item 9.1A	Summary decision charts
Agenda item 9.2	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47 and IPSAS 48)

Appendix A: Leases project timeline

Date	Project activity
Jan 2018	IPSASB issues IPSASB ED 64 *Leases* – which includes lessee accounting proposals aligned with IFRS 16 *Leases*, but also proposals to introduce the ROU model for lessors, and proposals for the fair value measurement of concessionary leases.
Feb-May 2018	XRB carried out broad outreach in New Zealand on IPSASB ED 64 (including roundtables, etc.) Feedback indicated broad support for the proposed ROU model for PBE *lessees*, except in relation to concessionary leases and other lease-type arrangements
Jun 2018	NZASB submitted comments on IPSASB ED 64 *Leases*
Jan 2021	IPSASB issued IPSASB ED 75 *Leases* – proposals aligned with IFRS 16 *Leases* (for lessees and lessors) Separate Request for Information (RFI) issued on *Concessionary Leases and Other Arrangements Similar to Leases*
Feb 2021	XRB carried out broad outreach in New Zealand on IPSASB ED 75 *Leases* and received feedback on the RFI
May 2021	NZASB submitted comments on IPSASB ED 75 *Leases* and the RFI
Jan 2022	IPSASB issued IPSAS 43 *Leases* – aligned with ED 75 proposals and IFRS 16 No specific requirements for concessionary leases, and public sector arrangements that are similar to leases are scoped out – considered separately under the project *Other Lease-type Arrangements*.
Feb 2022	NZASB applied the PBE Policy Approach and agreed that it should propose incorporating the requirements in IPSAS 43 into PBE Standards – and not wait for the project on concessionary leases and public sector arrangements that are similar to leases to be completed. The NZASB agreed in principle to allow for a long effective date to enable PBEs the option to adopt the new lease accounting requirement early (this was considered important for mixed group entities).
Apr 2022	NZASB discussed whether to make certain modification to IPSAS 43 – to enhance the appropriateness and usefulness of this standard for New Zealand PBEs and the users of their financial statements
Jun 2022	NZASB discussed a working draft of the ED and Consultation Document
August 2022	NZASB APPROVED ED PBE IPSAS 43 *Leases* and Consultation Document for publication
Aug–Nov 2022	Staff undertook outreach activities – including publicising the consultation in our newsletter and on LinkedIn, recording and publishing a 'walkthrough webcast' on the consultation, reaching out to key PBE stakeholders.
25 Nov 2022	Consultation closed – 11 formal and informal submissions received
Dec 2022 – Jan 2023	Staff analysed feedback received on the EDs
Jan 2023	IPSASB issued ED 84: *Concessionary Leases and Right-of-Use Assets In-Kind*
Feb 2023	• NZASB discussed its approach to IPSASB ED 84: *Concessionary Leases and ROU Assets In-kind* • Staff presented analysis of feedback received on ED PBE IPSAS 43 *Leases* and sought NZASB's strategic direction for this project. NZASB agreed:

Date	Project activity
	○ not to defer the publication of PBE IPSAS 43 until NZ requirements for concessionary leases are developed; and ○ that staff should explore practical expedients in relation to the ROU model, focusing on not-for-profit PBEs in the first instance (narrow majority, with the Board having split views).
May 2023	• NZASB agreed to make certain modification to PBE IPSAS 43 based on ED feedback – namely, to clarify the sale and leaseback requirements and increase RDR concessions for Tier 2. • NZASB agreed that staff should carry out detailed effects analysis regarding PBE IPSAS 43, before determining next steps. • NZASB submitted comments on ED 84: *Concessionary Leases and Right-of-Use Assets In-Kind*
August 2023	NZASB agreed to: • Commit to the finalisation of PBE IPSAS 43 for application by the public sector, but defer finalisation until certain matters are addressed and additional information is available, and taking into account the timing of other major public sector-related projects on the NZASB work programme; • Commit to current lease accounting practice for NFP PBEs, with a view to reassess whether it remains appropriate after PBE IPSAS 43 has been adopted in the public sector.
March 2024	IPSASB issued ED 88: *Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)*
May 2024	NZASB submitted comment letter on IPSASB ED 88.
June 2024	IPSASB approved for issue the final IPSAS
FUTURE:	
2024-2026	Staff to monitor the timing of the development of other major PBE Standards on the NZASB's work plan and the IASB's PIR of IFRS 16 – and to determine when to recommence work on the finalisation of PBE IPSAS 43 for application by the public sector. When this work recommences, staff will consider how to address the remaining matters raised by public sector respondents to ED PBE IPSAS 43, as well as other matters that arose during the effects analysis with respect to the public sector.

Appendix B: Detailed explanation of the requirements in the IPSASB pronouncement

Definition of concessionary lease

1. The term concessionary lease is not listed as a defined term in the amending standard. Instead the term is defined in paragraph 18B as follows.

   18B. In certain circumstances, such as when an entity enters into a lease at market terms, the lease is an exchange transaction. In other circumstances, such as ***when an entity enters into a lease at below-market terms, the lease is a concessionary lease***. In this case, the lease has a concession component. In determining whether a lease has an identifiable concession component on initial recognition, professional judgment is exercised.

2. This is supported by additional guidance in paragraph 18C outlining how to determine whether a lease is at or below market terms.

   18C. As concessionary leases are granted or received at below-market terms, the present value of contractual payments (consideration) on initial recognition of the lease will be lower than the present value of payments for the lease at market rates based on the current use of the underlying asset.

3. These paragraphs are supported by paragraph AG60 which provides general examples of concessionary leases.

   AG60. Concessionary leases are granted to or received by a lessee at below-market terms. ***Examples of concessionary leases include leases granted at below-market terms at inception to international organizations or to other public sector entities with public policy objectives granted to or received by the lessee***

4. Paragraph 18D of the amending standard highlights that determining whether a lease is concessionary is a matter of judgement after applying the principles in IPSAS 43 and, for lessees, the application guidance of IPSAS 47.

Recognition and measurement for lessees

<u>Initial measurement - ROU asset</u>

5. Paragraph 26A of the amending standard requires lessees to measure the ROU asset in a concessionary lease at ***the present value of payments for the lease at market rates based on the current use of the underlying asset*** (hereafter referred to as "market lease payments").

6. Paragraph 26B provides further guidance on determining this amount by specifying that:

   (a) The discount rate the lessee uses should be the interest rate implicit in the lease or their incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined as per paragraph 27 of IPSAS 43.

   (b) It includes the initial direct costs incurred by the lessee and an estimate of the costs to be incurred dismantling and removing the underlying asset (along with any asset or site restoration costs) as per paragraphs 25(c) and (d) of IPSAS 43.

7. However, paragraph 26 also provides a practical expedient by permitting the lessee to measure the ROU asset in a concessionary lease based on the contract payments if the market

lease payments are not readily available. Before doing so, lessees are required to make *a reasonable level of effort* in determining the market lease payments. No further guidance is included in the amending standard as to what that looks like in practice.

Initial measurement - Lease liability

8. Paragraph 29A specifies that where a lease liability is recognised through a concessionary lease, its cost shall be measured in accordance with paragraphs 27–29 of IPSAS 43. Therefore, there is no difference between the measurement of the lease liability of a lease at market rates and a concessionary lease.

Initial measurement – Concessionary component

9. The treatment of the concessionary component in a concessionary lease is described in paragraph AG61 of the amending standard.

   AG61. If a lessee receiving the right-of-use asset has determined that the transaction has a concession component, the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments is accounted for in accordance with paragraphs AG153A–AG153B of IPSAS 47 at the commencement date.

10. AG153A-AG153B are new guidance paragraphs the amending standard introduces to IPSAS 47 which state

    AG153A. Concessionary leases are leases received by a lessee at below-market terms. The portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether any difference between present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue that should be accounted for in accordance with this Standard.

    AG153B. Where a lessee determines that the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue, a lessee recognizes the difference as revenue, except if a compliance obligation exists. Where a compliance obligation exists, the lessee considers if it gives rise to the existence and recognition of a liability. As the lessee satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognised.

11. Essentially, if the ROU asset (based on market lease payments) is less than the lease liability at inception, the difference between the two is treated as revenue at unless a compliance obligation exists. If a compliance obligation exists, the revenue is instead recognised over time as the compliance obligation is satisfied rather than being recognised in its entirety at inception.

ROU assets in-kind

12. The IPSASB does not consider "leases for zero consideration", which it now refers to as "ROU assets in-kind", to be leases as they do not meet the definition of a lease in IPSAS 43 which requires the exchange of consideration. Despite this, they are considered sufficiently lease-like

to be accounted for in accordance with the principles of IPSAS 43 and the amending standard as they apply to concessionary leases.

13. As they are not considered leases, the amending standard introduces the guidance on accounting for these arrangements to IPSAS 47 rather than IPSAS 43. The relevant paragraphs of the amending standard on identification, recognition, and measurement are AG202A – AG202E.

14. While the guidance is located in IPSAS 47, the amending standard requires ROU assets in-kind to be accounted for in the same manner as concessionary leases. As there are no contract payments for a ROU asset in-kind the lease liability will be nil and therefore the amount of revenue recognised will be equal to the value of the ROU asset. Because the principles are fundamentally the same apart from the absence of a lease liability, we have not discussed these any further in this paper.

Recognition and measurement for lessors

Initial measurement – Finance leases

15. Paragraph 71A of the amending standard requires lessors to recognise assets under a concessionary finance lease applying the requirements in IPSAS 43 for finance leases, without modification. However, the Application Guidance in AG62(a) provides additional clarification on how to apply these requirements in the context of concessionary leases. At the commencement date, the lessor should:

    (a) Derecognise the underlying asset in accordance with the applicable IPSAS.

    (b) Recognise the net investment in the lease in accordance with IPSAS 43.

    (c) Not recognise the foregone revenue represented by the difference between market lease payments and the net investment in the lease.

Initial measurement – Operating leases

16. Paragraph 81A of the amending standard requires lessors to recognise revenue under a concessionary operating lease applying the requirements in IPSAS 43 for operating leases. The application guidance in AG62(b) provides additional clarification on how to apply these requirements in the context of concessionary leases. The lessor should:

    (a) Recognise lease revenue in accordance with this Standard.

    (b) Not recognise the foregone revenue represented by the difference between the contract payments and market lease payments.

    (c) Assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Concessionary component

17. For both finance and operating leases the lessor does not recognise the foregone revenue that represents the concessionary component of the lease. The IPSASB's rationale for this treatment, as explained in paragraphs BC185-BC187 of the Basis for Conclusions to IPSASB pronouncement, is as follows:

(a) For concessionary finance leases, the cost of the concession is already reflected in the difference between the carrying amount of the underlying asset derecognized and the net investment in the lease recognized. The IPSASB concluded that separately recognizing foregone revenue would inappropriately double-count the concession.

(b) For concessionary operating leases, the concession relates to foregone revenue from the below-market lease payments. As IPSAS 9 and IPSAS 47 do not recognize foregone revenue in other contexts, the IPSASB decided there was no conceptual basis for making an exception for concessionary operating leases.

(c) The IPSASB noted that for concessionary operating leases, the cost of the concession will be reflected over time in the difference between:

(i) The depreciation of the underlying asset, other expenses related to the underlying asset, and any impairment charges; and

(ii) The revenue obtained from the below-market lease payments received from the lessee.

Disclosure requirements - Lessees

18. Paragraph 64A of the amending standard sets out the specific disclosure requirements for lessees in concessionary leases. These disclosures are required to be made by class of underlying asset. The lessee shall disclose:

(a) The amount of the concession on initial recognition.

(b) The amount of the contractual payments for the lease when market lease payments are not readily available.

(c) The purpose and terms of the various types of concessionary leases, including the nature of the concession.

(d) Significant assumptions used in estimating the market lease payments.

19. These disclosures are in addition to the general lease disclosures required by paragraphs 54-64 of IPSAS 43.

Disclosure requirements - Lessors

20. The amending standard sets out specific disclosure requirements for lessors in concessionary leases, distinguishing between finance leases and operating leases. These requirements are found in paragraphs 96A and 96B.

21. These disclosures are in addition to the general lease disclosures required by paragraphs 90-96 of IPSAS 43 for finance leases and paragraphs 97-98 for operating leases.

<u>Finance leases</u>

22. For concessionary finance leases, paragraph 96A requires a lessor to disclose by class of underlying asset:

(a) The carrying amount of the underlying assets transferred during the period in accordance with the relevant IPSAS.

(b) The net investment in the lease at the commencement date in accordance with IPSAS 43.

(c) The difference between (a) and (b).

(d) The purpose and terms of the various types of concessionary finance leases, including the nature of the concession.

Operating leases

23. For concessionary operating leases, paragraph 96B requires a lessor to disclose by class of underlying asset:

(a) The amount of lease revenue accrued during the period.

(b) The costs associated with the underlying asset incurred on the accrual basis during the period.

(c) The difference between (a) and (b)

(d) The purpose and terms of the various types of concessionary operating leases, including the nature of the concession.

Appendix C

This appendix includes some example disclosures from NFP and Public Sector entities applying AASB 16 (or model financial statements applying AASB 16) which elect to measure their concessionary leases at cost. Links to the annual reports of the entities have been included for reference.

<table>
<tr>
<td>Willoughby City Council</td>
<td>
(f) Leases at significantly below market value – concessionary / peppercorn leases

Council has a number of leases at significantly below market for land and buildings which are used for:

• Zenith Theatre
• Joe Ciantar Rehearsal Studio
• Castle Cove Library
• Willoughby Girls High Playing Fields
• Frank Channon Walkway
• West Chatswood Library
• Various waterways
• Vehicle bridge 15 Herbert St - St Leonards
• Land adjoining Artarmon Railway station
• Upper Lane Cove River jetty

The leases have varying terms and require payments of less than $1,000 per year. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

None of the leases in place are individually material from a statement of financial position or performance perspective.
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</table>

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<tr>
<td>The Salvation Army Australia</td>
<td>

Leases with significantly below-market terms and conditions ('Peppercorn')

The Social Fund has the right to use a number of properties for no or nominal rental payments in order to further the entity's not-for-profit objectives. The lease terms for these properties range from 1 - 92 years. The Social Fund is permitted to continue to use the properties provided that The Salvation Army's status as a not-for-profit entity does not change and that it continues to operate for the benefit of the community.

The Social Fund elected to measure the right of use asset arising from these leases at cost, which is based on the associated lease liability. The carrying amounts attributable to Peppercorn leases were as follows:

	2022 $	2021 $
Right of use assets	**2,020**	87,461
Accumulated depreciation	**(505)**	(72,121)
Total lease liability	**1,548**	15,399

</td>
</tr>
<tr>
<td>

Transport for NSW

Annual Report 2021-22 Volume 2

</td>
<td>

Leases at significantly below-market terms and conditions principally to enable the entity to further its objectives

The consolidated entity has a 98-year lease with Infrastructure NSW to accommodate amenities and infrastructure required to operate the Barangaroo Ferry Hub. The leased premises must only be used for this purpose. The lease contract specifies a lease payment of $1.

The consolidated entity had leases with various government agencies for periods between 1 to 5 years. The lease premises are used by the consolidated entity in order to obtain access to the sites in order to undertake Sydney Metro construction works. The lease contracts specify lease payments between $1 and $100 per annum.

These leases do not have a significant impact on the consolidated entity's operations. The initial and subsequent measurement of right of use assets under leases at significantly below-market terms and conditions that are entered into principally to enable the consolidated entity to further its objectives is the same as normal right of use assets. They are measured at cost, subject to impairment.

</td>
</tr>
</table>

NSW Health	**26. Leases (continued)** **(a) Entity as a lessee (continued)** The parent entity had total cash outflows for leases of $33.36 million for the year ending 30 June 2022 (2021: $30.6 million). **Leases at significantly below market terms and conditions principally to enable the entity to further its objectives** The consolidated entity entered into a number of leases, with lease terms ranging from 1 to 99 years with various organisations, including local councils, health charities, Catholic churches and other NSW State entities for the use of various community health buildings. There are also some leases for the use of various helipads across the state. These contracts generally specify lease payments of $Nil or negligible amounts per annum, and the leased premises are used by the consolidated entity to provide different community health services and access to helipads. These community health buildings and helipads account for a small portion of similar assets used by the consolidated entity for the purposes of providing health services. Therefore, these lease arrangements do not have a significant impact on the consolidated entity's operations.
Sydney Local Health District	**Leases at significantly below market terms and conditions principally to enable the entity to further its objectives** SLHD entered into a number of leases, with lease terms ranging from 1 to 5 with various local councils for the use of community health buildings. The contract specifies lease payments of $Nil (2021: Nil) per annum. The leased premise is be used by SLHD to provide different community health services. The community health buildings account for a small portion of the similar assets SLHD is using for the purpose of providing community services. Therefore it does not have a significant impact on SLHD's operations.

<table>
<tr>
<td>NSW Communities and Justice</td>
<td colspan="2">

Leases at significantly below-market terms and conditions principally to enable the Department to further its objectives

The Department has the following major categories for concessionary leases in 2021-22:

(i) The Department entered into a 16 year lease from 1 October 2017 and a 3 year lease from 1 July 2020 with the NSW Land and Housing Corporation (LAHC) for lease payments of $1 per annum. The 16 year lease is for the use of 13 residential buildings to provide specialist disability accommodation under the NDIS. These buildings are subleased to the non-government organisations (NGOs) and account for a small portion of similar assets the Department is providing for the purpose of specialist disability accommodation under the NDIS. The 3 year lease is for the purpose of an Integrated Child and Family Centre. Therefore, it does not have a significant impact on the Department's operation.

As a Lessee (cont'd)

(ii) The Department entered into 5 separate lease agreements of 10 to 40 years of lease with the local councils, Police Citizens Youth Clubs NSW, Health Administration Corporation NSW and Minister for Education NSW for the use of these community centres. The lease contract specifies lease payments of $1 per annum. The leased premises must be used for integrated delivery of services for children, families and communities and as Aboriginal Child and Family Centres. These properties are subleased to the NGOs and account for a small portion of the similar assets the Department is providing as community centres. Therefore, it does not have a significant impact on the Department's operation.

</td>
</tr>
<tr>
<td>ACT Model Financial Statements for Directorates and Territory Authorities</td>
<td>Concessionary land leases (also referred to as peppercorn leases)</td>
<td>The Agency has a 30 year concessionary lease from 'ABC Agency' for use of land. The lease expires in 2044, with a rental of $xxx per year which is well below market value. 'Burley Griffin Agency' is dependent on the use of the land to further its objectives of conducting ecological studies and using the results to provide policy advice to Government. The land is restricted to provision of community services in accordance with the objectives of the Agency to local residents.</td>
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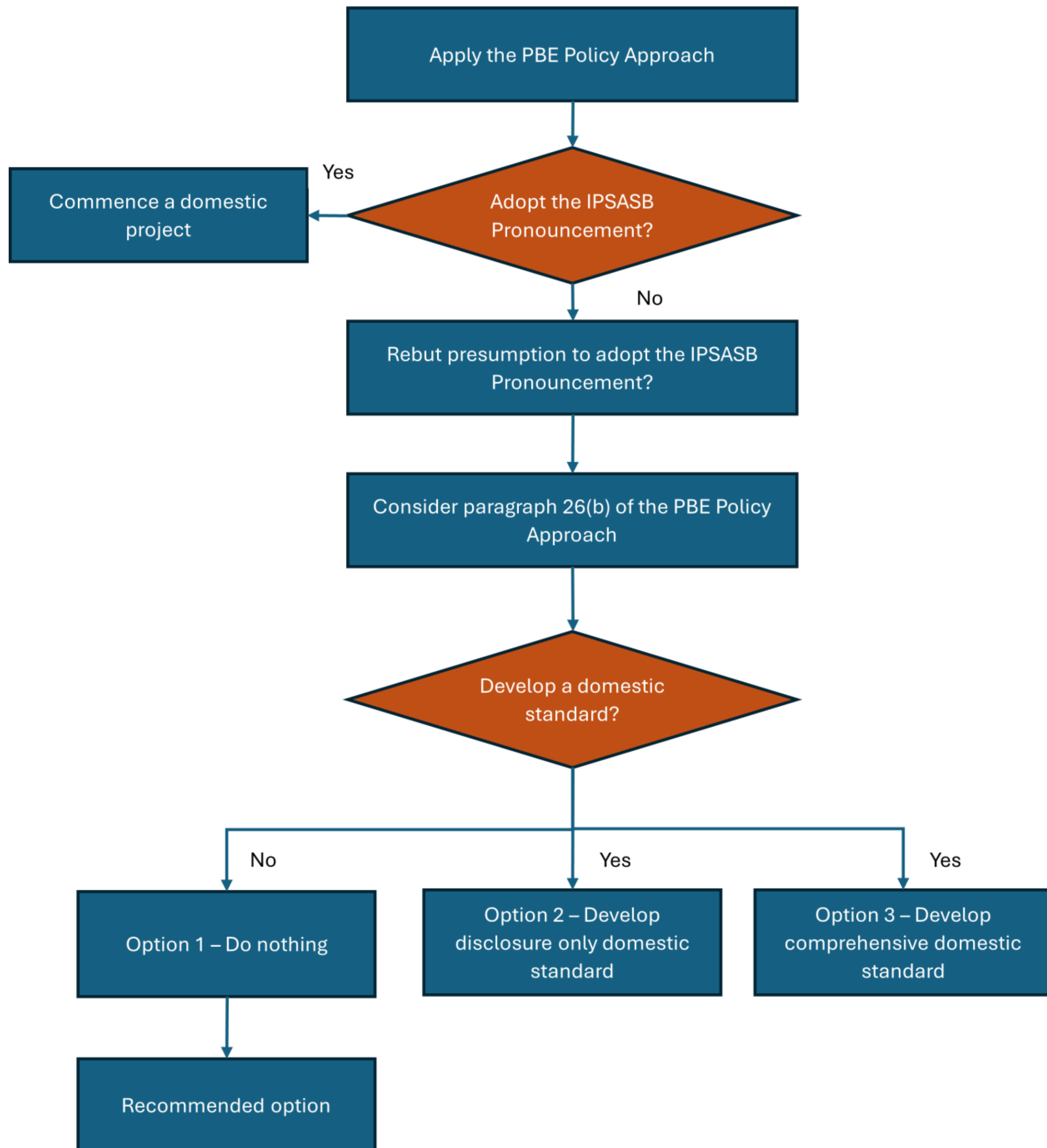
</table>

Decision chart for *Concessionary Leases and Other Arrangements Conveying Rights over* Assets (‘IPSASB pronouncement’)



Final Pronouncement
October 2024

IPSAS®

International Public Sector Accounting Standard ®

Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48)

IPSASB
International Public Sector Accounting Standards Board®

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The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB® sets International Public Sector Accounting Standards™ (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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CONCESSIONARY LEASES AND OTHER ARRANGEMENTS CONVEYING RIGHTS OVER ASSETS (AMENDMENTS TO IPSAS 43, IPSAS 47, AND IPSAS 48)

CONTENTS

Page

Amendments to IPSAS 43, *Leases* 4

Amendments to IPSAS 47, *Revenue* 45

Amendments to IPSAS 48, *Transfer Expenses* 58

Amendments to IPSAS 43, *Leases*

Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 103E, 117A–117F, AG32A, AG60–AG62, and BC105–BC206 are added. Paragraphs 6, 54, 109, 118, and 120 are amended. Headings above paragraphs 18A, 64A, 96A, 96B, 117A, 117E, 117F, AG32A, AG60, BC105, BC111, BC123, BC125, BC131, BC143, BC153, BC156, BC158, BC160, BC163, BC167, BC169, BC170, BC172, BC174, BC175, BC177, BC188, BC191, BC192, BC195, BC200, BC202, and BC204 are added. Headings above paragraphs 10, 65, 71, and 81 are amended. Paragraph IE2 has not been amended and has been included for ease of reading. New text is underlined and deleted text is struck through.

Recognition Exemptions (see paragraphs AG4–AG9)

6. A lessee may elect not to apply the requirements in paragraphs 18A–18D and 23–52 to:

   (a) Short-term leases; and

   (b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9).

…

Identifying a Lease (see paragraphs AG10–AG34, and AG60–AG62)

…

Assessing Whether the Transaction is at Market Terms or at Below-Market Terms

18A. At inception, an entity will determine whether the transaction is at market terms or at below-market terms.

18B. In certain circumstances, such as when an entity enters into a lease at market terms, the lease is an exchange transaction. In other circumstances, such as when an entity enters into a lease at below-market terms, the lease is a concessionary lease. In this case, the lease has a concession component. In determining whether a lease has an identifiable concession component on initial recognition, professional judgment is exercised.

18C. As concessionary leases are granted or received at below-market terms, the present value of contractual payments (consideration) on initial recognition of the lease will be lower than the present value of payments for the lease at market rates based on the current use of the underlying asset.

18D. At inception, a:

   (a) Lessee assesses the substance of the concessionary lease by applying the principles in this Standard and paragraphs AG153A–AG153B of IPSAS 47, *Revenue*; and

   (b) Lessor assesses the substance of the concessionary lease by applying the principles in this Standard.

…

Lessee

…

Measurement

Initial Measurement

Initial Measurement of the Right-of-Use Asset

…

26A. **Where a right-of-use asset is acquired through a concessionary lease, its cost shall be measured at the present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date.**

26B. The payments for the lease at market rates based on the current use of the underlying asset shall be discounted using the interest rates identified in paragraph 27. The cost of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d).

26C. A lessee shall make a reasonable level of effort in determining the present value of payments for the lease at market rates based on the current use of the underlying asset. If payments for the lease at market rates based on the current use of the underlying asset are not readily available for the right-of-use asset, the lessee shall measure the right-of-use asset in a concessionary lease in accordance with paragraphs 24–26.

Initial Measurement of the Lease Liability

…

29A. **Where a lease liability is recognized through a concessionary lease, its cost shall be measured in accordance with paragraphs 27–29.**

…

Disclosure

54. **The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 55–64A specify requirements on how to meet this objective.**

…

Concessionary Leases

64A. For concessionary leases received, a lessee shall disclose by class of underlying asset:

(a) The amount of the concession on initial recognition;

(b) The amount of the contractual payments for the lease when the payments for the lease at market rates based on the current use of the underlying asset are not readily available;

(c) The purpose and terms of the various types of concessionary leases, including the nature of the concession; and

(d) Significant assumptions used in estimating the present value of the lease payments at market rates based on the current use of the underlying asset.

Lessor

Classification of Leases (see paragraphs AG54–~~AG59~~AG60)

…

Finance Leases (see paragraph AG62(a))

Recognition and Measurement

…

71A. At the commencement date, a lessor shall recognize assets under a concessionary finance lease applying the requirements in this Standard for finance leases.

…

Operating Leases (see paragraph AG62(b))

Recognition and Measurement

…

81A. A lessor shall recognize revenue under a concessionary operating lease applying the requirements in this Standard for operating leases.

…

Disclosure

…

Concessionary Finance Leases

96A. For concessionary finance leases granted, a lessor shall disclose by class of underlying asset:

(a) The carrying amount of the underlying assets transferred during the period in accordance with the relevant IPSAS;

(b) The net investment in the lease at the commencement date in accordance with this Standard;

(c) The difference between (a) and (b); and

(d) The purpose and terms of the various types of concessionary finance leases, including the nature of the concession.

Concessionary Operating Leases

96B. For concessionary operating leases granted, a lessor shall disclose by class of underlying asset:

(a) The amount of lease revenue accrued during the period;

(b) The costs associated with the underlying asset incurred on the accrual basis during the period;

(c) The difference between (a) and (b); and

(d) The purpose and terms of the various types of concessionary operating leases, including the nature of the concession.

…

Sale and Leaseback Transactions

…

97A. An entity shall assess whether a sale and leaseback transaction contains an embedded concession at the inception of the lease.

97B. If an entity (the seller-lessee and the buyer-lessor) identifies below-market terms embedded in the leaseback transaction as a concession, the seller-lessee shall account for the concession in accordance with IPSAS 47, and the buyer-lessor shall account for the concession in accordance with this Standard. Otherwise, the entity shall account for the below-market terms as prepayments in accordance with paragraph 100(a).

…

Effective Date and Transition

Effective Date

…

103E. **Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 117A–117F, AG32A, and AG60–AG62 were added and paragraphs 6, 54, 109, 118, and 120 were amended by *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, *Measurement*, IPSAS 47, and IPSAS 48, *Transfer Expenses* at the same time.**

…

Transition

…

Lessees

…

109. A lessee shall apply this Standard to its leases either:

(a) Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs 111–117F.

…

Concessionary Leases

Leases Previously Classified as Operating Leases

117A. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall:

(a) Recognize a lease liability at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(b) Recognize a right-of-use asset at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that right-of-use asset at the present value of payments for the remaining lease term at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.

117B. Notwithstanding the requirements in paragraph 117A, for concessionary leases previously classified as operating leases applying IPSAS 13, a lessee is not required to make any adjustments on transition for concessionary leases previously accounted for as investment property using the fair value model in IPSAS 16, *Investment Property*. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

117C. A lessee may use one or more of the practical expedients in paragraphs 114(a), 114(b), 114(d), and 114(e) when applying this Standard retrospectively in accordance with paragraph 109(b) to concessionary leases previously classified as operating leases applying IPSAS 13.

117D. A lessee may elect not to apply the requirements in paragraph 117A to concessionary leases for which the lease term ends within 12 months of the date of initial application. In this case, the lessee shall:

(a) Account for those leases in the same way as short-term leases as described in paragraph 7; and

(b) Include the cost associated with those concessionary leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

Leases Previously Classified as Finance Leases

117E. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for concessionary leases that were classified as finance leases applying IPSAS 13, at the date of initial application the lessee shall:

(a) Measure the lease liability at the carrying amount of the lease liability immediately before that date measured applying IPSAS 13; and

(b) Recognize a right-of-use asset and measure in accordance with paragraph 117A(b).

For those concessionary leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

117F. If a lessee elects to apply this Standard in accordance with paragraph 109(b) for concessionary leases, the lessee shall disclose information according to paragraphs 116 and 117, as appropriate.

Lessors

118. Except as described in paragraph 119, a lessor is not required to make any adjustments on transition for leases, including concessionary leases, in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

…

Sale and Leaseback Transactions Before the Date of Initial Application

120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether:

(a) Tthe transfer of the underlying asset satisfies the requirements in IPSAS 47, *Revenue* to be accounted for as a sale.; and

(b) The leaseback satisfies the requirements in this Standard to be accounted for as a concessionary leaseback.

Appendix A

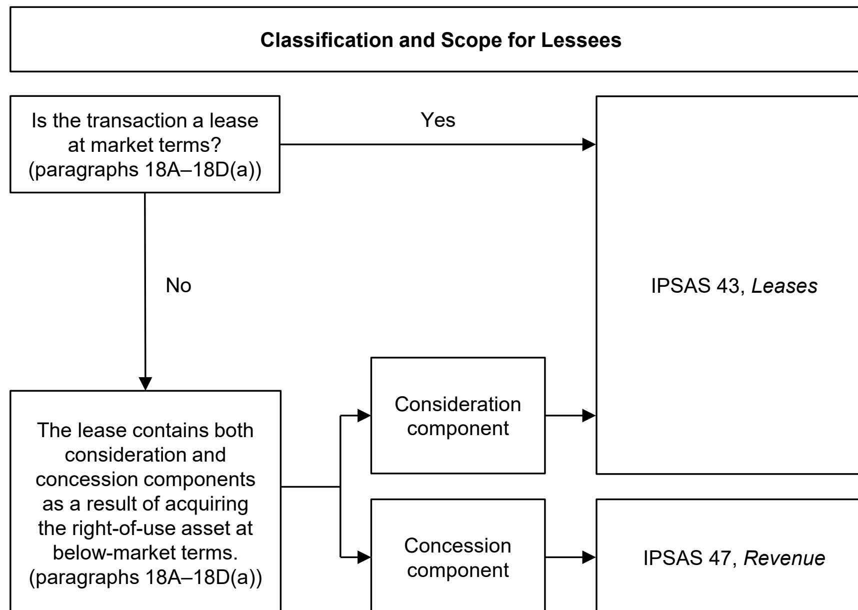
Application Guidance

This Appendix is an integral part of IPSAS 43.

…

Classification of Leases at Market Terms and at Below-Market Terms and Scoping for Lessees (paragraphs 18A–18D)

AG32A. The diagram below establishes the classification and scope of leases for lessees.



…

Concessionary Leases (see paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, and 81A)

AG60. Concessionary leases are granted to or received by a lessee at below-market terms. Examples of concessionary leases include leases granted to or received by international organizations or other public sector entities with public policy objectives at below-market terms at inception.

AG61. If a lessee receiving the right-of-use asset has determined that the transaction has a concession component, the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments is accounted for in accordance with paragraphs AG153A–AG153B of IPSAS 47 at the commencement date.

AG62. If a lessor granting a concessionary lease has determined that the transaction has a concession component, at the commencement date:

(a) In a concessionary finance lease, the lessor:

(i) Derecognizes the underlying asset in accordance with the applicable IPSAS;

(ii) Recognizes the net investment in the lease in accordance with this Standard; and

(iii) Does not recognize the foregone revenue obtained by the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the newly recognized net investment in the lease.

(b) In a concessionary operating lease, the lessor:

(i) Recognizes lease revenue in accordance with this Standard;

(ii) Does not recognize the foregone revenue obtained by the difference between the contractual payments and the payments for the lease at market rates based on the current use of the underlying asset; and

(iii) Shall assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Illustrative Examples are provided in paragraph IE296A of the Illustrative Examples accompanying IPSAS 47 as well as in paragraphs IE5, IE10A, and IE11 of the Illustrative Examples accompanying this Standard.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43.

…

Revision of IPSAS 43 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024

Introduction

BC105. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[1].

BC106. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC107. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or a right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC108. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[2], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[3], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable from 2026 onwards.

BC109. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for lessees in IPSAS 47 for the concession in concessionary leases update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC110. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets*

[1] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

[2] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[3] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

(Amendments to IPSAS 43, IPSAS 47, and IPSAS 48), regarding the amendments to IPSAS 43 including respondents' feedback to ED 84.

Definitions

BC111. The IPSASB reconsidered whether to modify the definition of a lease to include other types of arrangements that are not contracts.

BC112. The IPSASB decided not to extend the definition of a lease to non-binding arrangements because a lease includes enforceable rights and enforceable obligations for the lessor and lessee; a non-binding arrangement does not.

BC113. Regarding binding arrangements that are not contracts, the IPSASB, when developing IPSAS 43, decided to expand the types of arrangements within the scope of the definition of a contract by adding paragraph AG3 and clarifying that IPSAS 43 is designed only for arrangements that:

(a) Are in substance a contract rather than having the legal form of a contract; and

(b) Have the following three elements:

(i) Willing parties;

(ii) Rights and obligations for the parties to the contract; and

(iii) The remedy for non-performance is enforceable by law.

BC114. The fundamental difference between the definition of a contract in IPSAS 43 and the definition of a binding arrangement is that in the latter the enforceability is broader and includes "equivalent means". In other words, binding arrangements are enforceable both within and outside the legal system, whereas contracts are enforceable only within the legal system. Enforceability through equivalent means is the presence of enforcement mechanisms outside of the legal system, that is similar to the force of law without being legal in nature, such as statutory mechanisms, legislative or executive authority, and cabinet or ministerial directives."

BC115. The IPSASB's Conceptual Framework acknowledges that there are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to enforce the rights and obligations in those arrangements.

BC116. Sometimes in the public sector, there are binding arrangements that, although conveying the right to use an underlying asset, are not, in substance, contracts. For example:

(a) One or both parties to the arrangement are not a willing party (for example: a government conveys to another party the right to use an underlying asset on a unilateral basis);

(b) The enforceable rights and obligations did not arise from a contract (for example: the rights and obligations are stipulated by a government unilaterally); and

(c) Binding arrangements with enforceability mechanisms outside of the legal system (for example, enforcement achieved through executive authority, either cabinet or ministerial directives).

BC117. By extension, when entities have arrangements as described in paragraph BC116, the IPSASB noted that they should not apply IPSAS 43 because:

(a) Those arrangements are not, in substance, contracts, as leases are contractual arrangements by nature; and

(b) IPSAS 43 was designed for arrangements that are in substance lease contracts, provided that the arrangement conveys the right to obtain substantially all of the economic benefits or service potential from the use of the identified asset and the right to direct the use of the identified asset[4].

BC118. Therefore, the IPSASB decided to retain the definition of a lease as contractual arrangements in IPSAS 43 because:

(a) IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts; and

(b) It is consistent with IPSAS 41, *Financial Instruments*, which is also only applicable to contracts.

BC119. The IPSASB also considered whether to provide a definition or a description of a concessionary lease. The IPSASB noted that concessionary leases may vary depending on the level of consideration being exchanged, which may make them at below-market terms. In these cases, professional judgment may be required to assess whether, in substance, the transaction meets the definition of a lease or whether it is, in substance, a revenue transaction as a whole.

BC120. The IPSASB decided to provide a description rather than a definition of a concessionary lease because:

(a) It prevents an apparent contradiction of labelling as a lease an arrangement that conveys the right to use an underlying asset without the exchange of consideration; and

(b) It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described.

BC121. The IPSASB noted that there are transactions that convey the right to use an underlying asset without consideration (right-of-use asset in-kind). The IPSASB is of the view that transactions that convey the right to use an underlying asset without consideration do not meet the definition of a lease as defined in IPSAS 43.

BC122. The IPSASB concluded that a transaction that conveys a right-of-use asset in-kind is in substance a revenue transaction and, therefore, the principles in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IPSAS 47, *Revenue* are applicable to this type of transaction.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC123. While respondents strongly agreed with ED 84 proposals, a few respondents suggested:

(a) Expanding the definition of a lease to include binding arrangements that are not contracts for consistency with IPSAS 47 and IPSAS 48, *Transfer Expenses*; and

(b) Introducing new definitions on varied topics or adding more guidance related to the proposed definitions.

[4] IPSAS 43 introduced extensive application guidance on the assessment of both rights.

BC124. The IPSASB considered the reasons raised by the respondents and decided to proceed with the ED 84 proposals on keeping the definition of a lease limited to contracts and not adding new definitions for consistency with current IPSAS.

Identification, Classification, and Scope of Concessionary Leases

BC125. IPSAS 43 introduced new guidance on identifying a lease as a result of an exchange transaction. Building on this guidance, the IPSASB proposed additional guidance to identify, classify, and scope concessionary leases.

BC126. The IPSASB proposed this new guidance because it would help preparers:

(a) Distinguish leases at market terms from leases that have embedded concessions;

(b) Understand the relationship between IPSAS 43 and other IPSAS; and

(c) Apply the IPSAS 43 principles to leases at market terms and apply the principles in other IPSAS to the concessions, as appropriate.

BC127. The IPSASB considered whether to include additional specific guidance on variable lease payments other than those referred in IPSAS 43 when identifying and classifying leases at market or at below-market terms. Lease payments that are dependent on a lessee's sales might influence the identification of a concessionary lease.

BC128. The IPSASB decided not to include this additional guidance in IPSAS 43 because it is not prevalent in the public sector.

BC129. The IPSASB also considered the role of lease modifications when identifying and classifying leases at market or at below-market terms.

BC130. The IPSASB decided not to include additional guidance on lease modifications because an entity needs to apply professional judgment when assessing the conditions in IPSAS 43.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC131. The majority of respondents to ED 84 supported the proposed guidance on identification, classification, and scope.

BC132. Some respondents who did not support ED 84 proposals suggested providing additional guidance on:

(a) Other types of arrangements that convey the right to use an underlying asset in order to have a holistic approach;

(b) Arrangements that convey the right to use that (i) are binding arrangements, but are not in-substance contracts, or (ii) are not binding arrangements;

(c) What constitutes a condition or compliance obligation in the context of a concessionary lease in IPSAS 23; and

(d) Arrangements involving unwilling parties.

BC133. The IPSASB considered the issues raised by respondents and decided to proceed with ED 84 proposals because the respondents' suggestions are outside of the scope of IPSASB's project that led to the development of ED 84.

BC134. A respondent suggested providing a scope exclusion:

(a) Based on significance to public sector accountability (such as those where one party to the lease is a commercial entity); and

(b) Between entities within the same public sector group.

BC135. The IPSASB considered the above suggestions and decided not to provide scope exclusions based on specific characteristics of the entities because it impairs accountability and decision-making: the impact of receiving resources at below-market terms would no longer be visible in the financial statements and the accountability mechanisms may also be applied at entity level, not only at group level on consolidation.

BC136. A respondent suggested providing guidance on right-of-use assets in kind in a single Standard.

BC137. The IPSASB considered the above suggestion and decided to proceed with ED 84 proposals in two Standards because the scope of IPSAS 43 and IPSAS 23[5] was not meant to be changed and ED 84 proposals need to be consistent with the current scoping of IPSAS. The IPSASB notes that some of the guidance provided to concessionary leases can also be applicable to right-of-use assets in-kind.

BC138. Several respondents made suggestions about the proposed application guidance sections on classification of concessionary leases, including the diagrams and the role of consideration in the arrangements. These respondents were of the view that the diagram for lessors was confusing as the lessor did not recognize the non-exchange component and made several drafting suggestions.

BC139. The IPSASB considered these views and decided to enhance the application guidance section on identifying concessionary leases and the terminology in the diagram for lessees. The IPSASB also decided to remove the diagram for lessors because there is no:

(a) Change in the accounting for concessionary leases for lessors compared to leases at market terms; and

(b) Accounting for the foregone revenue in a concessionary lease for lessors.

BC140. Some respondents suggested more guidance on:

(a) Whether the goals/intent of the parties in entering into a lease contract has weight in the determination of concessionary leases; and

(b) Whether the use of the underlying asset for either its financial or its operational capacity influences the determination of whether the market rates based on the current use or the highest-and-best use is appropriate.

BC141. The IPSASB considered these suggestions and decided not to provide more guidance on the above topics because:

(a) The current guidance in IPSAS 43 and in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* is sufficient to help preparers identify a concessionary lease based on the definition of a lease and its market terms; and

[5] The IPSASB carried over this decision to ED 88 with separate proposals for IPSAS 47, which was then carried over to *Concessionary Leases and Other Arrangements Conveying Rights over Assets*.

(b) The requirements in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* apply a measurement technique specifically developed for concessionary leases, where the requirement of "based on the current use" is provided as a cost-relief to preparers.

BC142. However, the IPSASB decided to add illustrative examples on other lease-type arrangements that are common in the public sector to help preparers identifying a lease.

Lessee

Recognition and Measurement

BC143. IPSAS 43 initially measures the right-of-use assets at cost. This is consistent with the measurement of many other non-financial assets, such as assets within the scope of IPSAS 12, *Inventories*, IPSAS 16, IPSAS 31, *Intangible Assets*, and IPSAS 45 that are a result of exchange transactions. However, for non-exchange transactions a cost measurement basis does not reflect the economics of the transaction because it does not capture the embedded concession.

BC144. To address this issue, when developing the guidance to account for the right-of-use asset and the concession component in concessionary leases in ED 84 and ED 88, the IPSASB considered the principles in the IPSAS mentioned in paragraph BC143, as well as in IPSAS 23, IPSAS 41, *Financial Instruments*, and IPSAS 47.

BC145. The IPSASB noted that the above IPSAS require that assets acquired through non-exchange transactions be measured at their fair value as at the date of acquisition. The IPSASB considered also requiring measuring the right-of-use asset at fair value in a concessionary lease because:

(a) It is consistent with IPSASB's literature on the accounting for non-exchange transactions, including concessionary loans;

(b) It provides information on operating and financial capacity as referred in the Conceptual Framework for accountability and decision-making purposes; and

(c) Recognizing the implicit concession in a lease at below-market terms would enhance Public Financial Management (PFM) to the extent that the improvements would outweigh the costs associated with such a change for accountability and decision-making purposes.

BC146. However, the IPSASB noted that when an entity values the right-of-use asset at fair value it should measure the right to use the underlying asset, not the underlying asset itself, which is reflected in the payments for the lease at market rates. Therefore, the IPSASB decided to propose measuring the right-of-use asset in a concessionary lease at the present value of payments for the lease at market rates based on the current use of the underlying asset because:

(a) It is a measurement technique consistent with the fair value measurement basis;

(b) It helps preparers in measuring the right-of-use asset using a measurement technique that already exists in IPSAS 43 when dealing with leases that are not at market rates; and

(c) When comparing them with the present value of the contractual payments, preparers can measure the embedded concession.

BC147. The IPSASB also noted that IPSAS 46, *Measurement* introduced a new fair value definition drawn from IFRS 13 *Fair Value Measurement*. The IPSASB also noted that the new fair value definition is associated with the definition of highest and best use.

BC148. The IPSASB decided to refer to the present value of payments for the lease at market rates based on the current use, instead of the highest and best use as implied in the new fair value definition. The IPSASB considered the new fair value definition would not be appropriate because:

(a) The measurement of the right-of-use asset would no longer be based on the current use of the underlying asset, once the current fair value definition is replaced;

(b) There would be increased difficulty in measuring the right-of-use asset as it would be based on other possible uses of the asset to achieve the highest and best use; and

(c) Quite often there is not an active market for right-of-use assets to obtain the highest and best use.

BC149. In reaching this decision, the IPSASB noted that measuring a right-of-use asset at the present value of the lease payments at market rates based on the current use of the underlying asset is determined by considering right-of-use assets that have similar economic benefits or service potential.

BC150. As an exception to the above principle, the IPSASB decided to require measuring the right-of-use asset under a concessionary lease using the contractual payments if the payments for the lease at market rates based on the current use of the underlying asset are not readily available, in order to address the increased difficulty in measuring right-of-use assets in the public sector because of its nature and/or current use (for example, specialized assets). The IPSASB noted that the lease liability would still be reliably measured using the contractual payments for the lease.

BC151. When initially measuring the right-of-use asset in a concessionary lease, the IPSASB expects preparers to apply a reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset.

BC152. The IPSASB also decided to account for the concession component in a concessionary lease following the principles applicable to concessionary loans in IPSAS 23[6] because:

(a) Both transactions:

(i) Are at below-market terms at inception;

(ii) Have a concession to the price of the resource being transferred; and

(iii) Have the objective to provide/receive resources with a price at below-market terms;

(b) Transferring a resource in cash or in-kind should not modify the accounting for the concession component as revenue in both transactions, as concessionary leases are in substance financing transactions; and

(c) It prevents preparers choosing between concessionary leases and concessionary loans to achieve desired accounting outcomes.

[6] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 23.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

Overview

BC153. The majority of respondents to ED 84 supported the proposed guidance on recognition and measurement for concessionary leases for lessees.

BC154. Some respondents disagreed with ED 84 proposals because:

(a) There is a lack of consistency between lessee and lessor accounting;

(b) They are of the view that concessionary leases are:

(i) Not viewed as financing transactions, rather a means to achieve particular objectives or providing social services; and

(ii) Analogous to services in-kind and service concession arrangements.

BC155. The IPSASB considered these views and decided to proceed with ED 84 proposals because:

(a) The lack of consistency between lessee and lessor accounting impacts all leases, and not only concessionary leases. The IPSASB reaffirmed that it is not within the scope of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* to change the accounting models in IPSAS 43.

(b) Both concessionary leases and concessionary loans can be a way to achieve particular objectives, and therefore it is not a specific feature of concessionary leases. The objectives under which concessionary leases are received or granted have no impact on the classification of the transaction as a lease. This means that, provided that the transaction meets the definition of a lease, the principles proposed in ED 84 are appropriate. Concessionary leases are still financing transactions where there is a significant obligation to pay for the acquisition of the right-of-use asset albeit at below-market terms.

(c) Leases from the lessee perspective under the right-of-use model are not analogous to:

(i) Services because in a lease the resource-recipient (lessee) controls the use of the identified asset, while in a service the resource-provider (supplier) controls the use of the asset. Right-of-use assets are analogous to owned assets by owners where the resource-recipient (lessee) controls the use of the asset (the right-of-use asset in a lease).

(ii) Service concession arrangements because in a lease the resource-recipient (lessee) controls the use of the identified asset:

1. While in a service concession arrangement the resource-provider (grantor) controls the use of the identified asset; and

2. To provide services not on behalf of the resource-provider (lessor), whereas in a service concession arrangement the resource-recipient (operator) has a right to access to operate the underlying asset to provide public service on behalf of the resource-provider (grantor).

Option Between Cost and Fair Value

BC156. Some respondents suggested providing an option between cost and fair value to avoid undue cost or effort and others suggested no recognition and measurement of concessionary leases at market rates for cost-benefit reasons.

BC157. The IPSASB considered these suggestions and decided to proceed with ED 84 proposal because:

(a) It is consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, which states that the transaction price of an asset acquired in a non-exchange transaction does not provide information on operational or financial capacity that meets the qualitative characteristics while taking into account the constraints on information on financial reports;

(b) It is consistent with IPSAS as no IPSAS provides an accounting policy option to initially measure at cost or at fair value assets acquired through a non-exchange transaction;

(c) It is conceptually inconsistent to require measurement at fair value of an underlying asset acquired through a non-exchange transaction, but provide an accounting policy option to measure at cost or at fair value the right to use the very same underlying asset;

(d) Should the cost to obtain the market value of lease payments exceed the benefit, the proposals do not require an entity to recognize the right-of-use asset in a concessionary lease measured at market rates and instead should consider the contractual payments; and

(e) The benefits of providing information about the subsidy embedded in a concessionary lease outweigh the cost as long as the preparer does not incur unreasonable efforts and costs to obtain it.

Disclosures Instead of Recognition and Measurement

BC158. Some respondents suggested that disclosures are enough, and that no recognition and measurement requirements are needed.

BC159. The IPSASB considered this suggestion and decided to proceed with ED 84 proposals because according to IPSASB's Conceptual Framework, disclosure is not a substitute for display.

Measurement at Inception or at Commencement Date

BC160. A respondent suggested measuring the right-of-use asset at the inception date, instead of at the commencement date to prevent reassessing all leases for a second time.

BC161. The IPSASB considered this suggestion and decided to proceed with ED 84 proposals because:

(a) A lessee does not obtain and control its right to use the underlying asset until the commencement date;

(b) Any changes to a lease that occur after the inception date and before the commencement date are taken into account when initially measuring the right-of-use asset and lease liability at the commencement date; and

(c) It is more consistent with the measurement date for other transactions, such as the acquisition of property, plant, and equipment.

BC162. In order to prevent preparers from reassessing for a second time whether the transaction is at market terms or at below-market terms at the commencement date, the IPSASB clarified in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* that the assessment is made at inception of the transaction and the measurement is made at the commencement date.

Application of IPSAS 46 Measurement Bases

BC163. Some respondents suggested that the right-of-use asset should be initially measured applying a measurement basis presented in IPSAS 46 (current operational value and fair value), depending on whether the right-of-use asset is held for operational capacity or financial capacity, respectively, or at deemed cost.

BC164. The IPSASB noted that the ED 84 proposal to measure the right-of-use asset is comprised of a measurement technique specifically developed for concessionary leases and is divided into four parts:

(a) Part 1: "present value of payments for the lease"—This requirement applies the concept of the time value of money embedded in the lease because leases normally require a series of payments in the future, even if they are at below-market terms. The measurement technique “present value” is consistent with:

(i) Its applicability in IPSAS 43 for leases at market terms; and

(ii) The accounting principles in IPSAS 46, which measure the current value of assets and liabilities whether the cash flows occur at a point in time or in the future.

(b) Part 2: "at market rates"—This requirement obtains the market lease payments as if the lease was made at market terms. The term "market rates" can be seen as a way of estimating how much the lessee would have to pay for the lease if it was made at market rates.

(c) Part 3: "based on the current use of the underlying asset"—This requirement is a restriction in the assessment of market rates that serves as a cost-relief to preparers, as preparers do not need to search for the highest and best use of the underlying asset.

(d) Part 4: "as at the commencement date"—This requirement is consistent with the requirements in IPSAS 43 for leases at market terms and other items of property, plant, and equipment under IPSAS 45 (see paragraphs BC162–BC163).

BC165. The IPSASB reiterated its reasoning during the development of IPSAS 46 that this Standard is not meant to determine measurement guidance in other IPSAS. The objective of IPSAS 46 is to focus on the definition of appropriate measurement bases and their derivation. IPSAS 46 does not establish requirements for which measurement bases should be used in IPSAS.

BC166. The IPSASB concluded that the proposed measurement principles in ED 84 for right-of-use assets in concessionary leases for lessees are conceptually consistent with the measurement principles in IPSAS. Therefore, the IPSASB decided to carry over these principles to *Concessionary Leases and Other Arrangements Conveying Rights over Assets*.

Terminology

BC167. Several respondents suggested:

(a) Adding more guidance on reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset as at the commencement date of the concessionary lease;

(b) Replacing the wording "not readily available" with "impracticable" in context of measuring the market lease payments; and

(c) Adding more guidance on "market rates".

BC168. The IPSASB decided to carry over the ED 84 proposals to *Concessionary Leases and Other Arrangements Conveying Rights over Assets* for consistency with IPSAS 43 because:

(a) The term "reasonable level of effort" is dependent on the context in which it is applied as:

(i) Paragraph AG15(a) of IPSAS 43 already uses the term "reasonable" in the context of identifying substantive substitution rights; and

(ii) The term "reasonable" is a commonly used term in IPSAS without having additional guidance to explain it.

(b) The wording "readily available" is already used in IPSAS 43 without the wording "reasonable level of effort";

(c) The wording "impracticable":

(i) Sets a higher bar of effort to apply the exception, thus leading to more costs in applying the ED 84 proposals than what was intended by the IPSASB;

(ii) Creates an internal inconsistency in IPSAS 43 (i.e., separating components of a contract (see paragraph 15 of IPSAS 43), initial measurement of the lease liability (see paragraph 27 of IPSAS 43); reassessment of the lease liability (see paragraph 42 of IPSAS 43), and sale and leaseback transactions (see paragraph 101 of IPSAS 43)) for similar situations;

(iii) Is used normally in the context of retrospective application of accounting policies or retrospective restatements to correct an error under IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(d) The Measurement–Application Phase project will clarify through proposed amendments to IPSAS 46 that market rates do not include concessions.

Reassessment of the Lease Liability

BC169. The IPSASB decided to provide a relief to preparers for the reassessment of the lease liability in concessionary leases by requiring entities to apply the original discount rate when reassessing the lease liability.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC170. A respondent suggested that the IPSASB consider the updated discount rate for a lease modification because the lessee may always apply the lessee's incremental borrowing rate in case of not knowing the revised interest rate implicit in the lease.

BC171. The IPSASB agreed with the respondent and decided not to modify the IPSAS 43 requirements related to reassessment of the lease liability in case of concessionary leases.

Recognition Exemptions

BC172. The IPSASB considered the applicability to lessees of the general model to account for concessionary leases that are short-term leases and leases for which the underlying asset is of low value.

BC173. The IPSASB decided not to require the general model to lessees' recognition exemptions because:

(a) Leases for which the underlying asset is of low value are not material enough to warrant specific concessionary lease accounting; and

(b) Short-term leases have a lease term of 12 months or less.

Disclosures

BC174. The IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases and related to the accounting model.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC175. Some respondents made several detailed suggestions related to disclosures, such as:

(a) To require disclosures of right-of-use assets by class of underlying asset;

(b) Duplicate in IPSAS 23 the disclosures that exist in IPSAS 43; and

(c) Require disclosures on lessee's dependency on the underlying asset.

BC176. The IPSASB agreed to require disclosures of right-of-use assets by class of underlying asset because it is consistent with IPSAS 43 for leases at market terms. However, the IPSASB decided not to duplicate disclosures for cost-benefit reasons and not to require disclosure on a lessee's dependency on the underlying asset because this topic impacts all leases and not only concessionary leases.

Lessor

Recognition and Measurement

BC177. IPSAS 43 requires lessors to classify leases as either an operating lease or a finance lease under a risks and rewards dual model. Operating leases are viewed as a service, and the net investment in finance leases is viewed as a financial instrument.

BC178. In a finance lease, the substance or main issue of the lease is the underlying asset being transferred with the attached financing (net investment in the lease). The accounting for the transfer of the underlying asset is made in accordance with IPSAS 16, IPSAS 31, and IPSAS 45 as appropriate. The accounting for the attached financing (net investment in the lease) is made in accordance with IPSAS 43, which includes the accounting for the lease payments and the residual value.

BC179. In an operating lease, the substance or main issue of the lease is the stream of cash flows received by the lessor in the form of lease payments, as the lessor continues to recognize the underlying asset.

BC180. As a consequence of the different economics of leases under the risks and rewards dual model, in a:

(a) Concessionary finance lease, the concession is related to the price of the underlying asset transferred to the lessee; and

(b) Concessionary operating lease, the concession component is related to the price of lease payments received from the lessee.

BC181. This means that lessors can have two types of concessionary leases:

(a) Concessionary finance leases—which can be analogous to transferring a non-cash asset (the underlying asset) at below-market terms attached with financing for a portion of the value of the asset transferred (the net investment in the lease); and

(b) Concessionary operating leases—which can be analogous to providing services at below-market terms, as the lessor continues to recognize the underlying asset and the accounting is similar by applying the principles in IPSAS 45 to the accounting of the underlying asset and IPSAS 47 to the accounting of the revenue.

BC182. For concessionary finance leases, the IPSASB decided to continue measuring the transfer of the underlying asset to the lessee at its carrying amount because it is:

(a) The cost of the concession incurred by the lessor, being the economic benefits or service potential given up measured by the carrying amount of the underlying asset; and

(b) Consistent with the derecognition principles in IPSAS 16, IPSAS 31, and IPSAS 45 for disposals.

BC183. For concessionary operating leases, the IPSASB decided to continue measuring the lease payments received by the lessor in accordance with IPSAS 43 because:

(a) No economic benefits or service potential associated with the transaction will flow to the lessor higher than the cash received by the lessor in the form of lease payments made by the lessee; and

(b) It is consistent with revenue recognition principles in IPSAS 23[7].

BC184. In reaching this decision, the IPSASB noted that the terms and conditions of the concessionary operating lease might help an entity assess whether there is an indication that the underlying asset may be impaired in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate.

BC185. Following a cost measurement basis for concessionary leases, the IPSASB noted that lessors recognize the loss related with the derecognition of the underlying asset in a concessionary finance lease in accordance with the applicable IPSAS. This means that the cost of the concession would be the difference between the value of the carrying amount of the underlying asset derecognized and the value of the recognition of the net investment in the lease.

BC186. For concessionary operating leases, the IPSASB noted that lessors continue recognizing as revenue the cash received in the form of lease payments made by lessees and there would be no separate recognition of the concession. This situation occurs because the concession is related to the foregone revenue related to the lease payments. As foregone revenue is not recognized under

[7] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 23.

IPSAS 9[8], the IPSASB did not identify an economic reason to provide an exception to this principle in the context of concessionary operating leases.

BC187. The IPSASB concluded that the cost of the concession will be the difference between the:

(a) Depreciation of the underlying asset, other expenses related to the underlying asset, and the impairment charge related to the underlying asset, if any; and

(b) Revenue obtained in the lease payments received from the lessee.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC188. The majority of respondents to ED 84 supported the ED 84 proposals on recognition and measurement for concessionary leases for lessors.

BC189. Some respondents disagreed with ED 84 proposals because:

(a) ED 84 appears to treat the leasing standard as somehow appropriate for use by lessors in a finance lease providing concessionary leases when there is no stream of cash flows;

(b) Consideration of impairment in a concessionary operating lease should not be contemplated;

(c) In a concessionary finance lease, the underlying asset should not be derecognized if it continues to embody service potential; and

(d) Inconsistency between concessionary operating leases and concessionary finance leases where there is a loss on commencement date of the concessionary finance lease and no loss arises on commencement date of the concessionary operating lease, while both can have service delivery or outcome objectives.

BC190. The IPSASB considered these views and decided to proceed with ED 84 proposals because:

(a) The main issue in a concessionary finance lease is the underlying asset being transferred at below market terms. In this type of lease, the cost of the concession is the difference between the carrying amount of the underlying asset being transferred and the net investment in the lease. The accounting for the lease component is within the scope of IPSAS 43, and the accounting for the derecognition of the underlying asset is in accordance with IPSAS 16, IPSAS 31, and IPSAS 45, as appropriate.

(b) The IPSASB did not change the requirements for impairment in IPSAS 26, as the principles in that Standard are still applicable assessing impairment of the underlying asset in concessionary operating leases.

(c) The derecognition criteria and the accounting are in scope of IPSAS 16, IPSAS 31, and IPSAS 45, as appropriate, not in scope of IPSAS 43. IPSAS 43 provides several indicators of a finance lease that need to be taken into consideration in a holistic way. *Concessionary Leases and Other Arrangements Conveying Rights over Assets* does not amend the derecognition criteria and the accounting in other IPSAS nor the indicators of a finance leases in IPSAS 43, as these are related to all finance leases, not only concessionary finance leases.

[8] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 9 on this topic.

Disclosures

BC191. Similar to lessees, the IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms for lessors. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases for both concessionary finance leases and concessionary operating leases and related to the dual accounting model.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC192. The majority of respondents to ED 84 supported the ED 84 proposals on disclosures for concessionary leases for lessors.

BC193. Some respondents were of the view that there was a lack of information in the disclosures on foregone revenue and costs associated with the underlying asset in concessionary operating leases.

BC194. The IPSASB considered these views and decided not to require the disclosure of foregone revenue because the disclosures required are related to the accounting model[9]. Additionally, the IPSASB decided to require the disclosure of the costs associated with the underlying asset in concessionary operating leases for transparency reasons.

Sale and Leaseback Transactions

BC195. The IPSASB considered whether to amend the requirements in IPSAS 43 on sale and leaseback transactions at below-market terms to be consistent with the requirements of concessionary leases.

BC196. The IPSASB noted that, in principle, from a conceptual perspective, concessionary leases and leasebacks at below-market terms have two key differences:

(a) Different starting points—A leaseback at below-market terms is linked to a previous sale with the same party as interdependent transactions, while a concessionary lease is not linked to a previous sale with the same party; and

(b) Different objectives—A sale and leaseback transaction has the objective of obtaining cash through the sale of the underlying asset and refunding the cash proceeds in the form of lease payments, while a concessionary lease has the objective of conveying a concession through the right to use an underlying asset at below-market terms.

BC197. However, leasebacks at below-market terms might exist in the public sector with an identifiable concession embedded because there is no actual prepayment of the leaseback, as the agreed purchase price of the underlying asset is the same as its fair value.

BC198. The IPSASB noted that this may be a public sector-specific situation because normally in the private sector both the sale and leaseback are either at above-market terms or at below-market terms, not the leaseback alone being at below-market terms.

BC199. Therefore, the IPSASB decided to amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback are not linked to a prepayment.

[9] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 9 on this topic.

Transition

BC200. The IPSASB considered the transition requirements for concessionary leases. The IPSASB decided to propose transition requirements on concessionary leases similar to leases at market terms, where applicable, in order not to require extra efforts by preparers in applying the new proposed guidance on concessionary leases.

BC201. The IPSASB encourages preparers to apply IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* on transition because of the prevalence in the public sector of concessionary leases with long contract terms.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC202. Several respondents suggested easing the transition requirements for lessees by requiring measurement of the right-of-use asset at the present value of the remaining payments for the lease at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.

BC203. The IPSASB agreed with this suggestion for cost-benefit reasons.

Effective Date

BC204. The IPSASB considered the effective date of the amendments to IPSAS 43 in the context of effective dates of IPSAS 43 to IPSAS 49.

BC205. The IPSASB decided that the effective date of the amendments to IPSAS 43 should be January 1, 2027, with earlier application permitted, because it:

(a) Is broadly consistent with the three-year application period of IPSAS 43;

(b) Does not overwhelm preparers with more changes to be effective at the same time as IPSAS 43 to IPSAS 49; and

(c) Allows preparers an additional year for planning and implementation of the amendments to IPSAS 43 and IPSAS 47 after implementing IPSAS 43 to IPSAS 49 in the previous years.

BC206. The IPSASB also considered postponing the effective date of IPSAS 43 for two years to align with the effective date of the amendments to IPSAS 43 and decided not to do so because:

(a) It is more important to require the application of the new principles in IPSAS 43 sooner rather than later; and

(b) Entities always have the possibility of early adopting the new requirements in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* to a subset of lease transactions in the context of early adopting IPSAS 43 to align the effective dates.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 43.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 43.

Difference between services, service concession arrangements, and leases

IG2. The diagram below summarizes some differences between a service, a service concession arrangement and a lease and the respective guidance in IPSAS.

Type of control / Classification	**Service**	**Service concession arrangement**	**Lease**
Control of an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: • Finance Lease: No • Operating Lease: Yes Lessee: No
Control of the right to use an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: No Lessee: Yes
Control of the right to access to operate an identified asset	Supplier: Yes Customer: No	Grantor: No Operator: Yes	Lessor: No Lessee: Yes
IPSAS	47, *Revenue*	32, *Service Concession Arrangements: Grantor*	43, *Leases*

ILLUSTRATIVE EXAMPLES

CONTENTS

Paragraph

Identifying a Lease IE2

Example 1—Rail Cars

Example 2—Allocated Space

Example 3—Fiber-Optic Cable

Example 4—Office Unit

Example 5—Truck Rental

Example 6—Ship

Example 7—Aircraft

Example 8—Contract for Shirts

Example 9—Contract for Energy/Power

Example 10—Contract for Network Services

Example 10A—Access Rights

Example 10B—Shared Properties

Assessing Whether the Lease is at Market Terms or at Below-Market Terms IE2A

Example 10C—Assessing Whether the Lease is at Market Terms or at Below-Market Terms

Lease Incentives and Leases Concessions IE2B

Example 10D—Lease Incentives

Example 10E—Lease Concessions

Leases of Low-Value Assets and Portfolio Application IE3

Example 11—Leases of Low-Value Assets and Portfolio Application

Allocating Consideration to Components of a Contract IE4

Example 12—Lessee allocation of consideration to lease and non-lease components of a contract

Lessee Measurement IE5

Example 13—Measurement by a Lessee and Accounting for a Change in the Lease Term

Example 13A—Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates

Variable Lease Payments IE6

Example 14–Variable Lease Payments Dependent on an Index and Variable Lease Payments Linked to Sales

Lease Modifications IE7

Example 15—Modification that is a Separate Lease

Example 16—Modification that Increases the Scope of the Lease by Extending the Contractual Lease Term

Example 17—Modification that Decreases the Scope of the Lease

Example 18—Modification that Both Increases and Decreases the Scope of the Lease

Example 19—Modification that is a Change in Consideration Only

Subleases.. IE8

Example 20—Sublease Classified as a Finance Lease

Example 21—Sublease Classified as an Operating Lease

Lessee Disclosure IE9–IE10

Example 22—Variable Payment Terms

Example 23—Extension Options and Termination Options

Lessor Measurement IE10A

Example 23A—Concessionary Operating Lease (Lessor)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates

Example 23B—Concessionary Finance Lease (Lessor)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates

Sale and Leaseback Transactions IE11

Example 24—Sale and Leaseback Transaction

Example 25—Sale at Market Terms and Leaseback at Below-Market Terms

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Illustrative Examples

These examples accompany, but are not part of, IPSAS 43.

…

Identifying a Lease

IE2. The following examples illustrate how an entity determines whether a contract is, or contains, a lease.

…

Example 10A—Access Rights

A Government Agency (Entity) enters into a contract with a public sector entity (Customer) to convey the right of access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its operations. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.

The contract does not contain a lease of land or of small station cabins.

Although the land used by Customer is specified in the contract, there is no identified asset. The contract is to use land and small station cabins, and this can change without much impact on both Entity's and Customer's operations.

The Customer does not have the right to obtain substantially all of the economic benefits of service potential from the use of the land and of the small station cabins because the Entity can still obtain much more economic benefit and service potential from other operations.

The Customer does not have the right to direct the use because the Entity can change the land and the small station cabins that the Customer is allowed to use.

Example 10B—Shared Properties

Municipality A (Entity) enters into a contract with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it for its own activities. The Customer pays transaction consideration upfront to the Entity each month, based on the number of days it plans to use the office space.

The contract does not contain a lease of the floor.

Although the Customer has the right to direct the use of the floor in the days that it is using it, the Customer does not have the right to obtain substantially all of the economic benefits or service potential from the use of the floor because the Entity continues to use the floor for the majority of the time during the contract term and, therefore, obtaining substantially all of the economic benefits or service potential from the use of the floor.

…

Assessing Whether the Lease is at Market Terms or at Below-Market Terms (see paragraphs 18A–18D, AG32A, and AG60–AG62)

IE2A. The following examples illustrate how an entity assesses whether a lease is at market terms or at below-market terms.

Example 10C—Assessing Whether the Lease is at Market Terms or at Below-Market Terms

Municipality A (Lessee) enters into a lease contract with Government Agency B (Lessor) to use ten units in a building for its office operations for a ten-year period. The lease contract states that the Lessee agrees to pay the Lessor CU100,000 per month. The Lessor usually leases those units for CU185,000 per month, which is the current market rate, to private sector entities for the same purpose. The Lessor decided to lease those units at below-market terms because the Lessee is running a specific sports program for youth.

The lease is at below-market terms at inception and at commencement dates.

Lease Incentives and Lease Concessions (see paragraphs 5, 18A–18D, AG32A, and AG60–AG62)

IE2B. The following examples illustrate how an entity distinguishes a lease incentive from a lease concession.

Example 10D—Lease Incentives

Private sector entity Y (Lessor) has for lease ten units in a building for office operations for CU110,000 per month. Government agency X (Lessee) is interested in leasing those ten units for a prolonged period of time and has lesser credit risk. The Lessee ended up entering into the lease because the Lessor reduced the price of the lease payments by CU5,000 per month, to match market rates at inception.

The CU5,000 per month reduction is a lease incentive at inception and at commencement dates.

Example 10E—Lease Concessions

Government agency Z (Lessor) has built and has for lease a multi-purpose sports complex for youth. The local sports club W (Lessee) wants to expand its activities in terms of numbers of athletes and types of sports being offered by the club. The Lessor intends to expand the sports activity among youth in the area of the multi-purpose sports complex as a way to support its goals in terms of youth from low-income households. By leasing out the sports complex to the Lessee, it would meet its policy objectives. The lease payments at market rates for a similar multi-purpose sports complex are CU150,000. However, the Lessee does not have the financial capacity to pay the lease payments, and pay, at the same time, the costs of managing such a large facility. The Lessor and Lessee ended up signing up the lease contract for CU45,000 per month because the Lessee was the right partner to achieve the Lessor's goals.

The CU105,000 per month reduction is a lease concession at inception and at commencement dates.

Lessee Measurement (see paragraphs 19–42, ~~and~~ AG35–AG42, and AG60–AG61)

IE5. The following example illustrates how a lessee measures right-of-use assets, ~~and~~ lease liabilities, and concessionary leases. It also illustrates how a lessee accounts for a change in the lease term.

…

Example 13A–Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

Public sector not-for-profit entity X (Lessee) enters into a lease with Municipality Y (Lessor) to use a building to provide medical services to the population over a period of five years. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- *The lease stipulates that the lease should be paid over the five-year period as follows*:

  Year 1: CU3,718,694

  Year 2: CU3,718,694

  Year 3: CU3,718,694

  Year 4: CU3,718,694

  Year 5: CU3,718,694

  This represents an agreed reduction of 30% to the lease payments at market rates. The lessee's incremental borrowing rate is 5 percent per annum which is readily determinable by the lessee.

- *The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for five years. To the extent the compliance obligation is not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The compliance obligation is met on a straight-line basis.*

- *Depreciation of the right-of-use asset is not considered in the example for simplification purposes.*

Analysis

It is a concessionary lease, as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The lessee has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates–see Table 1 below–and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The concession component of CU6,900,000 is accounted for in accordance with IPSAS 47, and the present value of annual contractual payments of CU16,100,000 in accordance with this Standard.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the lessee recognizes the following (the lessee subsequently measures the lease liability at amortized cost):

Dr		Right-of-use asset	CU23,000,000	-
	Cr	Lease liability (refer to Table 1 below)	-	CU16,100,00
	Cr	Liability (refer to Table 1 below)	-	CU6,900,000

Recognition of the lease at the present value of payments for the lease at market rates based on the current use of the asset.

IPSAS 47 is considered in recognizing either a liability or revenue for the concession component of the lease. Paragraph IE308 of that Standard provides journal entries for the recognition and measurement of the concession component of the lease.

2. Year 1: The lessee recognizes the following:

Dr		Interest expense (refer to Table 2 below)	CU805,000	-
	Cr	Lease liability	-	CU805,000

Recognition of interest using the effective interest method (CU16,100,000 × 5%)

Dr		Lease liability (refer to Table 2 below)	CU3,718,694	-
	Cr	Bank	-	CU3,718,694

Recognition of lease payment

3. Year 2: The lessee recognizes the following:

Dr		Interest expense	CU659,315	-
	Cr	Lease liability	-	CU659,315

Recognition of interest using the effective interest method (CU13,186,306 × 5%)

Dr		Lease liability	CU3,718,694	
	Cr	Bank		CU3,718,694

Recognition of lease payment

4. Year 3: The lessee recognizes the following:

Dr		Interest expense	CU506,346	-
	Cr	Lease liability	-	CU506,346

Recognition of interest using the effective interest method (CU10,126,927 × 5%)

Dr		Lease liability	CU3,718,694	
	Cr	Bank	-	CU3,718,694

Recognition of lease payment

5. Year 4: The lessee recognizes the following:

Dr	Interest expense	CU345,729	-
Cr	Lease liability	-	CU345,729

Recognition of interest using the effective interest method (CU6,914,579 × 5%)

Dr	Lease liability	CU3,718,694	
Cr	Bank	-	CU3,718,694

Recognition of lease payment

6. Year 5: The lessee recognizes the following:

Dr	Interest expense	CU177,081	-
Cr	Lease liability	-	CU177,081

Recognition of interest using the effective interest method (CU3,541,614 × 5%)

Dr	Lease liability	CU3,718,694	
Cr	Bank	-	CU3,718,694

Recognition of lease payment

Calculations:

Table 1: Annual Payments (Using Market Interest Rate at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	**Present Value of Payments for the Lease at Market Rates**	**Undiscounted Annual Contractual Payments**	**Present Value of Annual Contractual Payments**	**Concession component of the lease to be recognized as revenue**
	(1)	**(2)**	**(3)**	**(4)**	**5=(2)-(4)**
Year 1	5,312,420	5,059,448	3,718,694	3,541,614	1,517,834
Year 2	5,312,420	4,818,522	3,718,694	3,372,965	1,445,557
Year 3	5,312,420	4,589,068	3,718,694	3,212,348	1,376,721
Year 4	5,312,420	4,370,541	3,718,694	3,059,379	1,311,162
Year 5	5,312,420	4,162,421	3,718,694	2,913,694	1,248,726
Total	**26,562,100**	**23,000,000**	**18,593,470**	**16,100,000**	**6,900,000**

Table 2: Calculation of Lease Liability Balance and Interest Using the Effective Interest Rate

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Total
Beginning balance	**16,100,000**	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	
Interest expense	805,000	659,315	506,346	345,729	177,081	2,493,471
Contractual payments	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	
Ending balance	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	**0**	

Right-of-use asset	23,000,000
Less: Present value of cash outflows (lease liability on initial recognition)	16,100,000
Concession component of the lease to be recognized as revenue over five years.	6,900,000

Lessor Measurement (see paragraphs 71A, 81A, AG60, and AG62)

IE10A. The following example illustrates how a lessor measures and accounts for concessionary leases.

Example 23A–Concessionary Operating Lease (Lessor)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

Municipality Y (Lessor) enters into an operating lease with public sector not-for-profit entity X (Lessee) to use a building over a period of five years with the condition to use it for providing medical services to the population in general. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,000,000.

- *The agreement stipulates that the lease should be paid over the five-year period as follows*:

  Year 1: CU3,500,000

  Year 2: CU3,500,000

  Year 3: CU3,500,000

  Year 4: CU3,500,000

  Year 5: CU3,500,000

  This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by the lessee.

- *Depreciation of the underlying asset is not considered in the example because it is within the scope of other IPSAS.*
- *The annual expenses (depreciation and maintenance) of the building are CU4,200,000.*

Analysis

It is a concessionary lease, as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The concessionary operating lease has two distinct components:

(a) An exchange component—Representing the portion of the economic value created by the lease contract to be received by the lessor as future cash inflows in the form of lease payments and accounted for as revenue (CU3,500,000 per year);

(b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU1,500,000 (CU5,000,000 – CU3,500,000)); and

The contractual payments are accounted for in accordance with IPSAS 43.

The annual journal entries[1] to account for the concessionary lease are as follows:

Dr Cash	CU3,500,000	
Cr Lease revenue		CU3,500,000

(1) As revenue in an operating lease is recognized on either a straight-line basis or another systematic basis, there is no need to discount the lease payments.

Example 23B–Concessionary Finance Lease (Lessor)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

Municipality Y (Lessor) enters into a finance lease with public sector not-for-profit entity X (Lessee) to use a building over a period of five years with the condition to use it for providing medical services to the population in general. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- *The agreement stipulates that the lease should be paid over the five-year period as follows*:

  Year 1: CU3,718,694

  Year 2: CU3,718,694

  Year 3: CU3,718,694

  Year 4: CU3,718,694

  Year 5: CU3,718,694

  This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by the lessor.

- *The carrying amount of the underlying asset is CU20,000,000.*
- *The residual value is CU0 (zero) for simplification purposes.*
- *The lease includes compliance obligations. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.*

Analysis

It is a concessionary finance lease, as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The concessionary finance lease has two distinct components:

(a) An exchange component—Representing the portion of the economic value created by the lease contract to be received by the lessor as future cash inflows in the form of lease payments and accounted for as the net investment in the lease (CU16,100,000); and

(b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU6,900,000 (CU23,000,000 – CU16,100,000)).

The journal entries to account for the concessionary finance lease are as follows:

1. On initial recognition, the lessor recognizes the following (the lessor subsequently measures the lease receivable (net investment in the lease) at amortized cost):

Dr		Lease receivable (refer to Table 1 below)	CU16,100,000	-
Dr		Surplus or deficit	CU3,900,000	
	Cr	Derecognition of the underlying asset	-	CU20,000,00[2]

[2] Net of accumulated depreciation.

Recognition of the contractual payments for the lease and derecognition of the underlying asset.

2. Year 1: The lessor recognizes the following:

Dr		Lease receivable	CU805,000	-
	Cr	Interest revenue (refer to Table 2 below)	-	CU805,000

Recognition of interest using the effective interest method (CU16,100,000 × 5%)

Dr		Bank	CU3,718,694	-
	Cr	Lease receivable (refer to Table 2 below)	-	CU3,718,694

Recognition of lease payment

3. Year 2: The lessor recognizes the following:

Dr		Lease receivable	CU659,315	-
	Cr	Interest revenue	-	CU659,315

Recognition of interest using the effective interest method (CU13,186,306 × 5%)

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

4. Year 3: The lessor recognizes the following:

Dr		Lease receivable	CU506,346	-
	Cr	Interest revenue	-	CU506,346

Recognition of interest using the effective interest method (CU10,126,927 × 5%)

Dr	Bank	CU3,718,694	
Cr	Lease receivable		CU3,718,694

Recognition of lease payment

5. Year 4: The lessor recognizes the following:

Dr	Lease receivable	CU345,729	
Cr	Interest revenue		CU345,729

Recognition of interest using the effective interest method (CU6,914,579 × 5%)

Dr	Bank	CU3,718,694	
Cr	Lease receivable		CU3,718,694

Recognition of lease payment

6. Year 5: The lessor recognizes the following:

Dr	Lease receivable	CU177,081	
Cr	Interest revenue		CU177,081

Recognition of interest using the effective interest method (CU3,541,614 × 5%)

Dr	Bank	CU3,718,694	
Cr	Lease receivable		CU3,718,694

Recognition of lease payment

Calculations:

Table 1: Annual Payments (Using Market Interest Rate at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	**Present Value of Payments for the Lease at Market Rates**	**Undiscounted Annual Contractual Payments**	**Present Value of Annual Contractual Payments**
	(1)	**(2)**	**(3)**	**(4)**
Year 1	5,312,420	5,059,448	3,718,694	3,541,614
Year 2	5,312,420	4,818,522	3,718,694	3,372,965
Year 3	5,312,420	4,589,068	3,718,694	3,212,348
Year 4	5,312,420	4,370,541	3,718,694	3,059,379
Year 5	5,312,420	4,162,420	3,718,694	2,913,694
Total	**26,562,100**	**23,000,000**	**18,593,470**	**16,100,000**

Table 2: Calculation of Lease Receivable Balance and Interest Using the Effective Interest Rate

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Total
Beginning balance	**16,100,000**	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	
Interest revenue	805,000	659,315	506,346	345,729	177,081	2,493,471
Contractual payments	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	
Ending balance	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	**0**	

Carrying amount of the derecognized underlying asset	20,000,000
Less: Present value of cash inflows (lease receivable on initial recognition)	16,100,000
Loss component with concessionary finance lease.	3,900,000

Sale and Leaseback Transactions (see paragraphs 97–102)

IE11. Examples 24 and 25 illustrates the application of the requirements in paragraphs 97–102 of IPSAS 43 for a seller-lessee and a buyer-lessor.

…

Example 25–Sale at Market Terms and Leaseback at Below-Market Terms

Museum A (Seller-lessee) has faced some financial difficulties due to expected increasing maintenance costs to fulfill new safety measures required for their architecturally unique building. Therefore, Seller-lessee sells the building to local government X (Buyer-lessor) at its current market price. Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years with an annual payment which is at below-market terms. Buyer-lessor ensures, with this contract, that the main tourist attraction in the region keeps open for all visitors.

Seller-lessee sells the building, which has a total useful life of 25.5 years, to Buyer-lessor at its current market price (fair value) for cash of CU1,800,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU103,553 at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IPSAS 47, *Revenue*. This example ignores any initial direct costs. The annual payment at market rates is CU120,000.

As the sale is at fair value, the sale is at market terms. As the lease payments are at below-market terms, the leaseback has an embedded concession.

Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale at market terms and a leaseback at below-market terms.

The interest rate implicit in the lease is 4.5 percent per annum, which is readily determinable by Seller-lessee. The present value of the contractual annual payments (18 payments of CU103,553 discounted at 4.5 percent per annum), amounts to CU1,259,204.

There are no compliance obligations attached to the leaseback transaction.

Seller-lessee

At the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU810,667. This is calculated as: CU1,000,000 (the carrying amount of the building) ÷ CU1,800,000 (the fair value of the building) × CU1,459,199 (the discounted payments for the lease at market rates for the 18-year right-of-use asset).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU151,467 calculated as follows. The gain on sale of the building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

(a) CU648,533 (CU1,459,200 × CU800,000 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and

(b) CU151,467 (CU340,801 × CU800,000 ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

Further calculations:

(c) CU340,801 (CU1,800,000-CU1,459,199) related to rights retained by the Buyer-lessor (unguaranteed residual value at the beginning of the lease).

(d) CU199,995 (CU1,459,199-CU1,259,204) related to the concession.

At the commencement date, Seller-lessee accounts for the transaction as follows.

	Dr	Cr
Dr Cash	CU1,800,000	
Dr Right-of-use asset	CU810,666	
Cr Building		CU1,000,000
Cr Lease liability		CU1,259,204
Cr Revenue		CU199,995
Cr Gain on rights transferred		CU151,467

Buyer-lessor

The Buyer-lessor classifies the lease as a finance lease.

At the commencement date, Buyer-lessor accounts for the transaction as follows.

	Dr	Cr
Dr Building	CU1,800,000	
Dr Financial asset	CU1,600,005 (18 payments of CU103,553, discounted at 4.5 per cent per annum (CU1,259,204) + unguaranteed residual value (CU340,801))	
Dr Surplus or deficit (Concession expense)	CU199.995	
Cr Cash		CU1,800,000
Cr Building (value of the rights transferred to the Seller-lessee)		CU1,459,199
Cr Building (unguaranteed residual value)		CU340,801

After the commencement date, the Seller-lessee and Buyer-lessor account for the lease by treating CU103,553 as lease payments.

Comparison with IFRS 16

IPSAS 43, *Leases* is drawn primarily from IFRS 16 (2016) *Leases,* including amendments up to March 2021.

The main differences between IPSAS 43 and IFRS 16 are as follows:

- IPSAS 43 uses different terminology from IFRS 16. For example, IPSAS 43 uses the terms “revenue”, “operation”, “accumulated surpluses/(deficits)” and “segment”, while IFRS 16 uses the terms “income”, “business unit”, “retained earnings” and “business segment’, respectively.
- IPSAS 43 refers to both “economic benefits” and “service potential”, where appropriate, in the section on identifying a lease, while IFRS 16 refers only to “economic benefits”.
- IPSAS 43 does not include specific requirements for manufacturer or dealer lessors, whereas IFRS 16 does.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas IFRS 16 does not.
- IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas IFRS 16 does not.

Comparison with GFS

In developing IPSAS 43, *Leases*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 43 applies a right-of-use model for lessees and a risks and rewards model for lessors, while GFS applies a risks and rewards model for both lessees and lessors.
- Under IPSAS 43, lessors classify leases as finance lease or operating lease and lessees do not classify leases as finance lease or operating lease. Under GFS, leases are classified as financial lease, operating lease, or resource lease.
- Under IPSAS 43, lessees recognize a right-of use asset and a lease liability. Under GFS, an underlying asset and a loan are recognized in a financial lease and lease payments from operating leases are recognized as use of goods and services.
- IPSAS 43 provides an optional recognition exemption for lessees on short-term leases and leases for which the underlying asset is of low value. GFS does not provide such recognition exemption.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas GFS does not.
- IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas GFS does not.

Amendments to IPSAS 47, *Revenue*

Paragraphs 194A, 203A, AG153A–AG153B, AG202A–AG202J, BC141–BC159, IE1A–IE1J, IE296A, and IE308 are added. Paragraphs AG1 and AG154 are amended. The headings above paragraphs AG153A, AG202A, AG202C, AG202D, AG202F, AG202G, BC141, BC147, BC152, BC158, IE1A, IE1B, IE1E, IE1H, IE296A, and IE308 are added. New text is underlined and deleted text is struck through.

Effective Date and Transition

Effective Date

…

194A. **Paragraphs 203A, AG153A–AG153B, AG202A–AG202J were added and paragraphs AG1 and AG154 were amended by *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, *Measurement*, IPSAS 47, and IPSAS 48, *Transfer Expenses* at the same time.**

…

Transition

…

203A. The transition requirements for right-of-use assets in paragraphs 106–117, 123, and 124–126 of IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 47.

AG1. This Application Guidance is organized into the following categories:

…

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

…

(va) Concessionary Leases for Lessees (paragraphs AG153A–AG153B);

…

(xiv) Bill-and-Hold Arrangements (paragraphs AG199–AG202); ~~and~~

(xv) Right-of-use Assets In-kind (paragraphs AG202A–AG202J); and

…

Application of Principles to Specific Transactions

…

Concessionary Leases

AG153A. Concessionary leases are leases received by a lessee at below-market terms. The portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43, *Leases*. A lessee considers whether any difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue that should be accounted for in accordance with this Standard.

AG153B. Where a lessee determines that the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue, a lessee recognizes the difference as revenue, except if a compliance obligation exists. Where a compliance obligation exists, the lessee considers if it gives rise to the existence and recognition of a liability. As the lessee satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognized.

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 received consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

…

(d) Right-of-use assets held by a lessee acquired through concessionary leases are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with IPSAS 43.

…

Right-of-Use Assets In-kind

Identification

AG202A. Right-of-use assets in-kind are right-of-use assets received without consideration. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10–12 and AG10–AG34 of IPSAS 43, *Leases* for identifying a lease, with the necessary adaptations in the absence of payments.

AG202B. Right-of-use assets in-kind are transfers of assets that one entity makes to another entity subject to certain obligations. The resource provider may be an entity or an individual.

Recognition

AG202C. Right-of-use assets in-kind are recognized as assets in accordance with IPSAS 16 or IPSAS 45 if they meet the definition of investment property, or property, plant, and equipment, respectively. The timing of revenue recognition depends on the fulfillment of the compliance obligations.

Measurement

AG202D. On initial recognition, right-of-use assets in-kind are measured at the present value of payments at market rates based on the current use of the underlying asset in accordance with paragraphs 26A and 26B of IPSAS 43. If payments for the right-of-use assets in-kind at market rates based on the current use of the underlying asset are not readily available, the right-of-use assets in-kind shall be measured in accordance with paragraphs 24–26 of IPSAS 43.

AG202E. After initial recognition, an entity shall subsequently measure right-of-use assets in-kind in accordance with paragraphs 30–36 of IPSAS 43 for right-of-use assets.

Presentation

Display

AG202F. An entity shall display in the statement of financial position, or disclose in the notes to the general purpose financial statements right-of-use assets in-kind separately from other assets. If an entity does not display right-of-use assets in-kind separately in the statement of financial position, the entity shall:

(a) Include right-of-use assets in-kind within the same line item as either:

(i) The corresponding underlying assets presented if they were owned; or

(ii) Other right-of-use assets; and

(b) Disclose which line items in the statement of financial position include those right-of-use assets in-kind.

Disclosure

AG202G. An entity shall disclose in the notes to the general purpose financial statements the nature and type of major classes of right-of-use assets in-kind, showing separately major classes of right-of-use assets in-kind received.

AG202H. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:

(a) Depreciation charge for right-of-use assets in-kind by class of underlying asset; and

(b) Carrying amount at the end of the reporting period by class of underlying asset.

AG202I. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in paragraph AG202H for those right-of-use assets in-kind.

AG202J. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 45, an entity shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of-use assets in-kind.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 47.

…

Revision of IPSAS 47 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024

Introduction

BC141. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[1].

BC142. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC143. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or a right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC144. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[2], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[3], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable from 2026 onwards.

BC145. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for lessees in IPSAS 47 for the concession in concessionary leases to update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC146. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets*

[1] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

[2] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[3] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

(Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) regarding the amendments to IPSAS 47, including respondents' feedback to ED 88.

Accounting for the Concession in Concessionary Leases and Right-of-Use Assets In-kind

BC147. The IPSASB noted that IPSAS 47 already has guidance on the accounting for the concession in concessionary loans. The IPSASB decided to develop similar guidance in IPSAS 47 to help preparers account for the concession in concessionary leases and right-of-use assets in-kind applying IPSAS 47 principles in a consistent way.

BC148. The IPSASB noted that some respondents to the RFI had identified in their jurisdiction arrangements that conveyed the right to use an underlying asset for zero consideration. As this type of arrangement does not meet the definition of a lease because it lacks consideration, and with the approval of IPSAS 43, the IPSASB decided to create a new type of asset –the right-of-use asset in-kind– that did not exist at the time of approval of IPSAS 47, and to amend IPSAS 47 to provide guidance on accounting for this type of arrangement.

BC149. The IPSASB decided that accounting for right-of-use assets in-kind should follow the same principles as for right-of-use assets acquired through a concessionary lease because both have types of non-cash consideration.

BC150. The IPSASB noted that the recognition of services in-kind is elected rather than a requirement. The IPSASB considered whether to allow an election for recognizing right-of-use assets in-kind. The IPSASB decided to require recognition of right-of-use assets in-kind to be aligned with the accounting of both right-of-use assets under concessionary leases and donated assets.

BC151. The IPSASB also decided to add non-authoritative guidance on access rights, arrangements allowing the right to use an asset, and shared properties for preparers to have comprehensive guidance on the types of arrangements that convey rights over assets in the public sector.

Responses to ED 88, Arrangements Conveying Rights over Assets

BC152. The majority of respondents supported the ED 88 proposals on the accounting for the concession in concessionary leases and right-of-use assets in-kind, while a minority of respondents disagreed with the ED 88 proposals.

BC153. The respondents that disagreed with the ED 88 proposals for amendments to IPSAS 47 raised mostly the same reasons as for the disagreement with the amendments to IPSAS 43 in ED 84 (see Basis for Conclusions to IPSAS 43).

BC154. Several respondents requested additional guidance or clarifications on the:

(a) Subsequent measurement of the right-of-use asset in-kind in the situation where new information appears that makes it possible to recognize it;

(b) Scoping of arrangements that convey right-of-use assets in-kind; and

(c) Fact that, in concessionary leases, lessors are not required to recognize the concession but in other arrangements that convey rights over assets with concessions the transferors are required to recognize the concession.

BC155. The IPSASB decided to provide clarification in this Basis for Conclusions and not to provide more guidance in IPSAS 47 and in IPSAS 48 on the above topics for the following reasons:

(a) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors* already provides guidance on changes in accounting estimates when new information occurs;

(b) The new guidance on right-of-use assets in-kind is only related to contracts or arrangements that are in substance contracts;

(c) Both lessors in concessionary leases and transferors in other arrangements that convey rights over assets under IPSAS 48:

   (i) The transfer of right-of-use assets in-kind is a transaction similar to a lease, except that there is no contractual lease payment in the transfer of right-of-use assets in-kind;

   (ii) Do not have separate accounting for the concession at the inception of the arrangement because in a:

      1. Concessionary finance lease, the lessor loses control of the transferred resources which entails an expense upon its derecognition;

      2. Concessionary operating lease, the lessor retains control of the underlying asset and it is consumed by the lessor as the lessee uses the asset; and

   (iii) Are required to disclose the costs of the asset transferred.

BC156. Some respondents suggested adding more information in the illustrative examples on how the assets will be used. The IPSASB decided not to add more information in the illustrative examples on how the assets will be used because it will not provide additional information for the accounting in the illustrative examples.

BC157. The IPSASB also considered suggestions to add an illustrative example on concessionary finance leases for lessors and guidance on donated assets and decided not to proceed with these suggestions because the accounting for these arrangements is the same as for finance leases and it was outside of the scope of ED 88 to provide illustrative examples on donated assets.

Effective Date

BC158. The IPSASB considered the effective date of the amendments to IPSAS 47 in the context of effective dates of IPSAS 43 to IPSAS 49.

BC159. The IPSASB decided that the effective date of the amendments to IPSAS 43 should be January 1, 2027, with earlier application permitted, because it:

(a) Is broadly consistent with the three-year application period of IPSAS 43 to which the amendments to IPSAS 47 are related;

(b) Does not overwhelm preparers with more changes to be effective at the same time as IPSAS 43 to IPSAS 49; and

(c) Allows preparers an additional year for planning and implementation of the amendments to IPSAS 43 and IPSAS 47 after implementing IPSAS 43 to IPSAS 49 in the previous years.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 47.

…

Scope

IE1A. Examples 0A–0C illustrate the requirements in paragraph 3(d) of IPSAS 47 to assess whether the arrangement is in the scope of IPSAS 47, rather than in the scope of IPSAS 43, *Leases*.

Example 0A – Access Rights

IE1B. *A Government Agency (Entity) enters into an arrangement with a public sector entity (Customer) to convey the right of access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its operations. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.*

IE1C. The Entity has determined that this arrangement is not a lease because there are no identified assets as the assets may be determined by the Entity.

IE1D. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide access to the land and small station cabins (as may be determined by the Entity), in exchange for an enforceable right to receive payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0B – Arrangements Allowing the Right to Use an Asset

IE1E. *Municipality A (Entity) enters into an arrangement to provide Government Agency X (Customer) the right to use the Entity's properties, which are specifically designed to deliver education services as part of a national program for certifying the qualifications of the labor force, in exchange for transaction consideration that is paid monthly. The arrangement is for a period of seven years. Throughout the seven-year period, the Entity can and will change the buildings where the certification occurs according to its needs, as long as it gives the Customer a 30-day notice for the Customer's planning purposes.*

IE1F. The Entity has determined that this arrangement is not a lease because the Entity has substantive substitution rights.

IE1G. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide the right to use its properties for the Customer to deliver education services in exchange for an enforceable right to receive payments from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0C – Shared Properties

IE1H. *Municipality A (Entity) enters into an arrangement with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it for its own activities. The Customer pays transaction consideration upfront to the Entity each month, based on the number of days it plans to use the office space.*

IE1I. The Entity has determined that this arrangement is not a lease because the Entity has not transferred to the Customer the right to obtain substantially all of the economic benefits or service potential from the use of the floor.

IE1J. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to share the use of the office space with the Customer, in exchange for an enforceable right to payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

…

Application of Principles to Specific Transactions

…

Concessionary Leases

Example 54A – Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

IE296A. Public sector entity X (Lessee) enters into a lease with Municipality Y (Lessor) to use a building to provide medical services to the population over a period of five years. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

The lease stipulates that it should be paid for over the five-year period as follows:

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The lessee’s incremental borrowing rate is 5 percent per annum, which is readily determinable by the lessee.

The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for five years. The compliance obligation is met on a straight-line basis.

Analysis

It is a concessionary lease, as the present value of the payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The lessee has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The revenue of CU6,900,000 is accounted for in accordance with IPSAS 47, and the lease, with its related contractual interest and lease payments, in accordance with IPSAS 43.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the lessee will recognize the following:

Dr		Right-of-use asset	CU23,000,000	
	Cr	Lease liability		CU16,100,000
	Cr	Binding arrangement liability		CU6,900,000

2. Year 1: the lessee will recognize the following:

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation met by the lessee CU6,900.000)

(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 leases. A comprehensive example is included in the Illustrative Examples to IPSAS 43.)

3. Year 2: the lessee will recognize the following (the lessee subsequently measures the concessionary lease at amortized cost):

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

4. Year 3: the lessee will recognize the following:

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

5. Year 4: the lessee will recognize the following:

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

6. Year 5: the lessee will recognize the following:

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

If the concessionary lease was granted with a compliance obligation that is met in the first year, the lessee would recognize the following on initial recognition:

Dr		Right-of-use asset	CU23,000,000	
	Cr	Lease liability		CU16,100,000
	Cr	Revenue		CU6,900,000

…

Right-of-Use Assets In-kind

Example 59 – Right-of-Use Assets In-kind

IE308. Public sector entity Z (Entity Z) enters into an arrangement with a Government Agency (Agency) for five years to have the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types or pricing of sports services that Entity Z provides.

A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for five years and is considered market rates. This information is publicly available on the Agency's website.

Entity Z's incremental borrowing rate is 5 percent per annum.

Case A – A Binding Arrangement with Compliance Obligation Met over Five Years

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free, and that it has an enforceable obligation (because the Agency can terminate the arrangement if that field is not being used by youth at any time in the five years). Entity Z determines that the arrangement meets the definition of a binding arrangement, and it includes a compliance obligation to ensure that only youth use the sports field. The compliance obligation is satisfied over time, on a straight-line basis.

Entity Z confirmed that the substance of the right-of-use is not a contribution from owners.

Analysis

Entity Z acquired a right-of-use asset in-kind for zero consideration. The present value of payments at market rates is CU1,298,843 (refer to Table 1), which corresponds to the value of the right-of-use asset in-kind and total revenue. IPSAS 45 is applied to subsequently account for the right-of-use asset in-kind.

The journal entries to account for the right-of-use asset in-kind and revenue are as follows:

1. On initial recognition, the Entity Z will recognize the following:

	Right-of-use asset	CU1,298,843	
Cr	Binding arrangement liability		CU1,298,843

2. Year 1: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met by Entity Z CU1,298,843)

3. Year 2: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

4. Year 3: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

5. Year 4: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

6. Year 5: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

Case B – A Binding Arrangement with a Compliance Obligation Met in the First Year

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free an enforceable obligation that is met in the first year.

Dr	Right-of-use asset	CU1,298,843	
Cr	Revenue		CU1,298,843

Table 1: Annual Payments (Using Incremental Borrowing Rate of Entity Z at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	Present Value of Payments at Market Rates (Value of Right-of-use asset and total revenue)
	(1)	(2)
Year 1	300,000	285,714
Year 2	300,000	272,109
Year 3	300,000	259,151
Year 4	300,000	246,811
Year 5	300,000	235,058
Total	**1,500,000**	**1,298,843**

Amendments to IPSAS 48, *Transfer Expenses*

Paragraphs BC41–BC51 and IE12A–IE12C are added. Paragraph IE2 is amended. The headings above paragraphs BC41, BC47, BC49, BC50, and IE12A added. New text is underlined.

Basis for Conclusions

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

…

Revision of IPSAS 48 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024.

Introduction

BC41. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[1].

BC42. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC43. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC44. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[2], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[3], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable in 2026 onwards.

BC45. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for the concession in concessionary leases for lessees in IPSAS 47 to update the

[1] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

[2] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[3] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC46. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48), regarding the amendments to IPSAS 48 including respondents' feedback to ED 88.

Scoping

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC47. Some respondents suggested the IPSASB consider the linkages between ED 84 proposals and IPSAS 48 relating to concessionary leases and right-of-use assets in-kind, as this Standard was published after the publication of ED 84.

BC48. The IPSASB considered the linkages between ED 84 proposals and IPSAS 48 relating to concessionary leases and right-of-use assets in-kind and concluded that no changes were required to scoping in IPSAS 48 because:

(a) Leases, which includes concessionary leases, are explicitly scoped out of IPSAS 48; and

(b) Arrangements that convey the right to use an underlying asset for zero consideration are within the scope of IPSAS 48.

Illustrative Examples

BC49. The IPSASB proposed illustrative examples on right-of-use assets in-kind and social housing without consideration to address the need for guidance on these arrangements raised by respondents to the RFI.

Responses to ED 88, Arrangements Conveying Rights over Assets

BC50. Respondents to ED 88 suggested removing the illustrative example on social housing without consideration because the accounting outcomes are the same as for the illustrative example on right-of-use assets in-kind. The IPSASB agreed with this suggestion and decided to remove the illustrative example on social housing without consideration when finalizing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48).

BC51. Respondents to ED 88 also suggested adding illustrative examples on concessionary leases for lessors, but the IPSASB decided not to proceed with this suggestion because the accounting for concessionary leases by lessors is the same as for leases at market terms.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 48.

…

Scope

IE2. Examples 1–2A illustrate the requirements in paragraphs 3–5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48.

…

Example 2A – Right-of-Use Assets In-kind: Usage of A Sports Field for Zero Consideration

IE12A. A Government Agency (Agency) enters into an arrangement with a public sector entity Z (Entity Z) for five years conveying the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types and pricing of sports services that Entity Z provides.

IE12B. The binding arrangement includes a compliance obligation, specifically that the sports field should be used by youth. To the extent that the compliance obligation is not met by Entity Z, the binding arrangement is cancelled, and the right to use the sports field returns to the Agency. Entity Z's compliance obligation is met on a straight-line basis.

IE12C. The conveying of the right to use for free a sports field is within the scope of IPSAS 48 because the Agency provides the right to use to Entity Z without directly receiving any good, service, or other asset in return (see paragraph 6). The transfer consideration is already reflected in the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs. No separate accounting is required.

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