

Exposure Draft (ED) 72 Summary—*Transfer Expenses*

This summary provides an overview of [Exposure Draft \(ED\) 72, *Transfer Expenses*](#).

- Project objective:** The aim of Exposure Draft (ED) 72 is to develop a standard that provides recognition and measurement requirements applicable to providers of transfer expenses.
- Project stage:** The International Public Sector Accounting Standards Board® (IPSASB®) issued the Consultation Paper (CP) [Accounting for Revenue and Non-Exchange Expenses](#), in August 2017. The IPSASB issued ED 72 in February 2020.
- Next steps:** The IPSASB seeks feedback on ED 72 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that establishes requirements for accounting for transfer expenses.
- Comment deadline:** ED 72 is open for public comment until September 15, 2020.
- How to respond:** Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the website.

Why the IPSASB Undertook this Project

The purpose of the IPSASB's project on non-exchange expenses is to develop new or amended standards that provide recognition and measurement requirements applicable to entities transferring resources in non-exchange transactions.

ED 72 proposes requirements for transfer expenses.

ED 72 also aims to ensure that the accounting for transfer expenses is consistent with the accounting for the equivalent revenue transactions that the IPSASB has been developing in parallel to its non-exchange expenses project.

The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services and transfer expenses accounts for a significant portion of their expenditure.

Despite the importance of social benefits, collective and individual services and transfer expenses for most governments, until recently there had been little guidance in the IPSASB's literature on how to account for these transactions.

The IPSASB undertook a phased program of work to address these transactions, culminating with IPSAS 42, *Social Benefits*, issued in January 2019 and continuing with *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020.

ED 72 proposes accounting requirements for transfer expenses that will complete this program and fill a significant gap in the IPSASB's literature.

At the same time, the IPSASB was considering amendments to its requirements for accounting for revenue, and issued the CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017.

In the CP, the IPSASB explained the drivers behind the development of the revenue and non-exchange expenses projects. For the non-exchange expenses project, these included:

- The problems in operationalizing the exchange versus non-exchange distinction; and consideration of whether to replace this with a focus on whether transactions include a performance obligation.
- The gap in the current IPSASB literature on accounting for non-exchange expenses which may lead to ambiguity and inconsistency of accounting policies in highly significant areas of expenditure.
- The scope for ensuring consistency of approaches between resource providers (for non-exchange expense transactions) and resource recipients (for revenue transactions).

Scope of ED 72

Table 1 illustrates the scope of ED 72, *Transfer Expenses*, and how it interacts with ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*.

Table 1: Scope of ED 72, *Transfer Expenses*

Description	Revenue with Performance Obligations (ED 70)	Revenue without Performance Obligations (ED 71)			Transfer Expenses (ED 72)			Outside the scope of Transfer Expenses (ED 72)
		With Present Obligations	Without Binding Arrangements	Taxes	With Performance Obligations	With Binding Arrangements (No Performance Obligations)	Without Binding Arrangements	
Entity A purchases goods or services from Entity B for Entity A's own use	✓							✓
Entity A purchases goods or services from Entity B for third-party beneficiaries	✓				✓			
Entity A transfers resources to Entity B to undertake specified activities or incur eligible expenditure		✓				✓		
Entity A transfers resources to Entity B with no specified requirements			✓				✓	
Entity A pays taxes to Entity B				✓				✓

Definitions

ED 72 defines Transfer Expenses as follows:

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.

Other key definitions are found in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*.

Definitions included in ED 70

A **performance obligation** is a promise in a binding arrangement with a purchaser to transfer to the purchaser 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 and that have the same pattern of transfer to the purchaser or third-party beneficiary.

ED 72 relies on this definition to distinguish between transfer expenses with performance obligations, and transfer expenses without performance obligations. ED 72 has different requirements for each type of transfer expense. However, only performance obligations to transfer goods or services to third-party beneficiaries are within the scope of ED 72. Third-party beneficiaries are defined as follows:

A **third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between two other parties by receiving goods, services or other assets.

Definitions included in ED 71

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.

ED 72 specifies the accounting requirements for the transfer provider. The definitions of both a transfer expense and a transfer provider state that the transfer provider provides goods, services or other assets without directly receiving any good, service or other asset in return. If the provider were to receive goods, services or other assets in return, the transaction is outside the scope of ED 72.

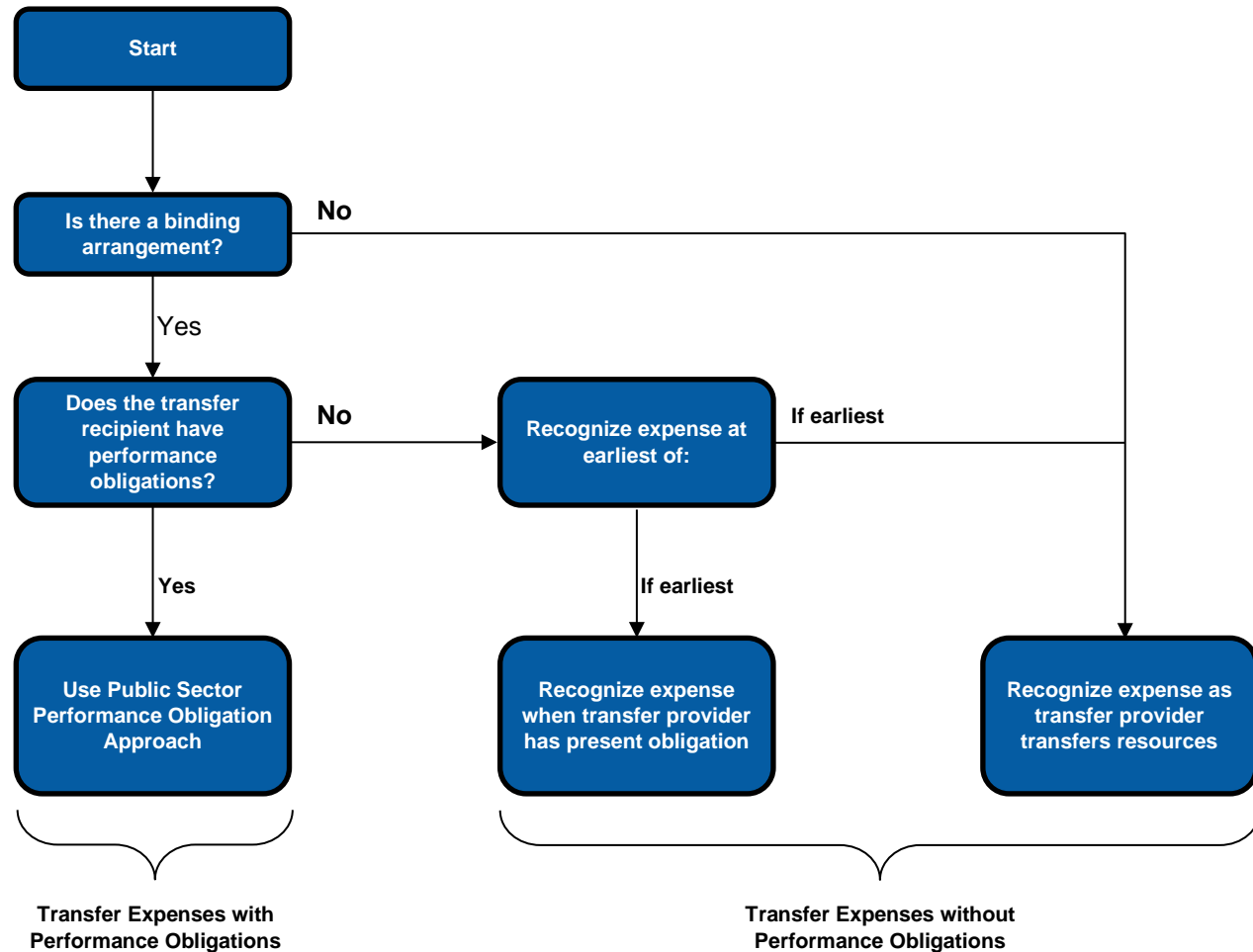
A **transfer recipient** is an entity that receives a good, service, or other asset from another entity without directly providing any good, service, or other asset to that entity.

A transfer recipient may receive resources from the transfer provider in return for providing goods or services to third-party beneficiaries (transfer expenses with performance obligations), or may use the resources for their own purposes (transfer expenses without performance obligations).

Accounting for Transfer Expenses

Figure 1 summarizes the arrangements for accounting for transfer expenses, including the issues that transfer providers will need to consider in determining the appropriate accounting for particular transactions.

Figure 1: Accounting for Transfer Expenses



Transfer Expenses with Performance Obligations (Public Sector Performance Obligation Approach)

Transfer expenses with performance obligations are accounted for using the Public Sector Performance Obligation Approach (PSPOA).

The PSPOA adopts a five-step approach, based on the five-step approach used in ED 70, *Revenue with Performance Obligations*. This will enable consistency of accounting for the expense and revenue sides of a transaction.

Figure 2 illustrates the five steps of the PSPOA.

Figure 2: The Five Steps of the Public Sector Performance Obligation Approach



Step 1: Identify the Binding Arrangement

The parties to the binding arrangement must have approved the binding arrangement and be committed to performing their respective obligations.

The transfer provider must be able to identify each party's rights regarding the goods or services to be transferred, and be able to identify the payment terms for the goods or services to be transferred.

The transfer provider must monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. This is necessary to ensure the transfer provider has the information required to apply the PSPOA.

Where one or more of the criteria are not met, the transfer provider will account for the transfer expense as a transfer expense without performance obligations.

Step 2: Identify Performance Obligations

The PSPOA allocates expenses to the **transfer recipient's** performance obligations. The transfer provider needs to identify as a performance obligation each promise by the transfer recipient to transfer to a third-party beneficiary either:

- A good or service (or a bundle of goods or services) that is distinct; or
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third-party beneficiary

Only those performance obligations to transfer goods and services to third-party beneficiaries are within the scope of ED 72. This is a subset of the performance obligations in ED 70, *Revenue with Performance Obligations*.

Public Sector Performance Obligation Approach (continued)

The application of the PSPOA will be straightforward in many cases. For example, where a binding arrangement only contains one performance obligation, the total transaction consideration will be allocated to that performance obligation.

Although the PSPOA mirrors the accounting requirements in ED 70, some guidance is not included in ED 72 as the transfer provider is not expected to have the information required to apply that guidance. Where the transfer provider does have the necessary information, the transfer provider can use the guidance provided in ED 70.

Step 3: Determine the Transaction Consideration

The transaction consideration is the value of the resources (i.e., the consideration) that the transfer provider expects to transfer to the transfer recipient, in exchange for the transfer recipient transferring the promised goods or services to the third-party beneficiary.

The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both. The following factors are considered in determining the transaction consideration

- Nature of the consideration;
- Amount of the consideration;
- Timing of the consideration, including any significant financing component;
- Variable consideration;
- Non-cash consideration; and
- Consideration receivable by a transfer provider.

Step 4: Allocate the Transaction Consideration

The total transaction consideration is allocated to individual performance obligations.

The transaction consideration is allocated in an amount that depicts the cost which the transfer provider expects to incur in exchange for the promised goods or services being transferred to a third-party beneficiary.

To identify this cost, the transfer provider determines the stand-alone purchase price of each good or service that is to be transferred. This may be directly observable (where the goods or services are purchased individually) or may need to be estimated.

The transaction consideration is allocated in proportion to the stand-alone purchase prices. Additional guidance is provided for allocating discounts and variable consideration.

Step 5: Recognize a Transfer Expense

A transfer provider recognizes an expense when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary.

A good or service is transferred when (or as) the third-party beneficiary obtains control of that good or service.

A transfer provider may determine the point at which the third-party beneficiary obtains control of the good or service by reference to the transfer recipient losing control of that good or service.

In some circumstances, the transfer provider may find it easier to identify when the transfer recipient loses control of the good or service, especially where there are multiple third-part beneficiaries who receive the good or service.

Transfer Expenses without Performance Obligations

Transfer expenses without performance obligations may arise:

- Where the transfer provider incurs expenses in accordance with a binding arrangement it has entered into with a transfer recipient, and the binding arrangement imposes present obligations—other than performance obligations—on the transfer recipient; or
- Where the transfer provider incurs expenses without the existence of a binding arrangement.

Recognition

A transfer expense without performance obligations is recognized at the earlier of the following dates:

- When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources;
- and
- When the transfer provider 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 transfer provider derecognizes the resources it ceases to control in accordance with other Standards.

Transfers to be made where there is no binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources.

If a transfer provider waives their right to collect a debt owed by a transfer recipient, effectively canceling the debt, the transfer provider recognizes an expense at the date that it derecognizes the financial asset that it has waived its right to collect.

Measurement

Where a transfer provider recognizes an expense at the date it transfers the resources to the transfer recipient, the transfer provider measures the expense at the carrying amount of the resources transferred.

In many cases, the resources that are transferred will be cash, and the expense is measured at the amount of cash transferred. In other cases, the resources may be a non-current asset, inventory, or services. The expense is measured at the carrying amount of resources transferred. In the case of services, this will be the cost of providing the services.

Where a transfer provider recognizes an expense prior to transferring the resources to the transfer recipient, it measures the expense and liability at the best estimate of the costs that the transfer provider will incur in settling the liability. The costs that the transfer provider will incur in settling the liability may include fixed costs, variable costs, or both.

The transfer provider also needs to consider the time value of money (where the transfer of resources will take place more than one year in the future) and the value of any non-cash transfers.

Transfer Expenses without Performance Obligations (continued)

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an “authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.”

ED 72 specifies the subsequent measurement of non-contractual payables. Such transactions do not meet the definition of a transfer expense, but because they are not financial instruments, they are outside the scope of IPSAS 41, *Financial Instruments*. The accounting is the same as for transfer expenses

Transfer Expenses Subject to Appropriations

In some jurisdictions, a binding arrangement for a transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being authorized.

In such circumstances, a transfer provider may be prohibited from transferring the promised resources until the appropriation is authorized. The transfer provider will need to consider substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.

Where the transfer recipient has an enforceable right to the resources (meaning the transfer provider has a present obligation to transfer them) prior to the approval of the appropriation, the transfer provider recognizes a liability and an expense for future transfers prior to the appropriation being authorized.

In other cases, the authorization of the appropriation determines when a transfer provider has lost its discretion to avoid proceeding with a transfer. The transfer provider only recognizes a liability and an expense for the transfer when the appropriation is authorized.

Subsequent Measurement of Transfer Expenses

Where the liability (the payable) for a transfer expense without performance obligations is a financial liability as defined in IPSAS 41, *Financial Instruments*, the transfer provider shall account for the liability in accordance with IPSAS 41.

Where the liability for a transfer expense without performance obligations is not a financial liability as defined in IPSAS 41, the liability is reduced as the transfer provider transfers resources to the transfer recipient. Any difference between the carrying amount of the resources transferred and the carrying amount of that liability is recognized in surplus or deficit in the period in which the liability is settled.

Subsequent Measurement of Other Non-Contractual Payables

An entity may recognize a payable arising out of the operation of legislation or regulation that does not meet the definition of a transfer expense. After initial recognition, that payable is accounted for in the same way as a payable for a transfer expense (except where the payable is within the scope of another Standard, in which case the requirements in that Standard are applied).

Comparison of Transfer Expenses without Performance Obligations and Revenue without Performance Obligations

Table 2 compares the accounting for transfer expenses without performance obligations in ED 72 with the accounting for the equivalent revenue in ED 71.

The recognition of a transfer expense and the related revenue occurs at the same time where there is no binding arrangement.

However, where a binding arrangement imposes present obligations on the transfer recipient, it is likely that the transfer provider will recognize a transfer expense before the transfer recipient recognizes the equivalent revenue.

Table 2: Transfer Expenses and Revenue without Performance Obligations

	Transfer Expenses	Revenue
The transfer provider incurs expenses in accordance with a binding arrangement that imposes present obligations on the transfer recipient.	<p>Financial Position:</p> <p>The present obligations imposed on the transfer recipient do not give rise to an asset controlled by the transfer provider; no asset is recognized.</p>	<p>Financial Position:</p> <p>The transfer recipient recognizes an asset and a liability when it receives resources (or when it has a receivable, if earlier).</p>
	<p>Financial Performance:</p> <p>The transfer provider recognizes an expense as it transfers the resources (or when it has a payable, if earlier).</p>	<p>Financial Performance:</p> <p>The transfer recipient recognizes revenue (and derecognizes the liability) as it satisfies the present obligations.</p>
The transfer provider incurs expenses without the existence of a binding arrangement.	<p>Financial Position:</p> <p>Without a binding arrangement, the transfer provider does not recognize an asset.</p>	<p>Financial Position:</p> <p>Without a binding arrangement, there is no liability; the transfer recipient recognizes an asset when it receives resources.</p>
	<p>Financial Performance:</p> <p>The transfer provider recognizes an expense as it transfers the resources.</p>	<p>Financial Performance:</p> <p>The transfer recipient recognizes revenue when it receives the resources.</p>

Next Steps

The deadline for comments is September 15, 2020.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.



How can I comment on the proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB’s website will indicate the meetings at which feedback on ED 72 will be discussed. The dates and locations of 2020 meetings are available at: <http://www.ipsasb.org/meetings>.

To stay up to date about the project, please visit: <http://www.ipsasb.org/projects/non-exchange-expenses>.

Specific Matters for Comment

ED 72 includes nine Specific Matters for Comment, which cover the following issues:

SMC 1: The scope of ED 72.

SMC 2: The distinction between transfer expenses with performance obligations and transfer expenses without performance obligations.

SMC 3: The requirement that a transfer provider monitor the satisfaction of performance obligations to apply the PSPOA.

SMC 4: Recognition and measurement of transfer expenses with performance obligations.

SMC 5: Practicality of applying the PSPOA.

SMC 6: Recognition and measurement of transfer expenses without performance obligations.

SMC 7: Appropriateness of the different recognition points for transfer expenses without performance obligations and revenue without performance obligations (ED 71).

SMC 8: Transfer expenses subject to appropriations.

SMC 9: Disclosure requirements.