

Supporting Papers — NZASB Meeting 28 June 2023

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Final Pronouncement
May 2023

IPSAS®

International Public Sector Accounting Standard®

IPSAS 47, *Revenue*

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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IPSAS 47, REVENUE

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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

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:**
 - (a) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of IPSAS 42, *Social Benefits* (the insurance approach);**
 - (b) **A public sector combination within the scope of IPSAS 40, *Public Sector Combinations*;**
 - (c) **The accounting for contributions from owners;**
 - (d) **Lease contracts within the scope of IPSAS 43, *Leases*;**
 - (e) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts¹;**
 - (f) **Financial instruments and other contractual rights or obligations within the scope of IPSAS 41, *Financial Instruments*;**
 - (g) **Rights or obligations arising from binding arrangements within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements: Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits*, and 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 sector entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis;**

¹ There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on insurance contracts.

- (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 IPSAS 16, *Investment Property*, IPSAS 45, *Property, Plant, and Equipment*², or 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 IPSAS 27, *Agriculture*); and
- (l) The extraction of mineral resources.

Definitions

4. 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 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 resources³ internally for distinct goods or services⁴ 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.

² If this Standard is applied prior to IPSAS 45, then references to IPSAS 45 in this Standard should refer to IPSAS 17, *Property, Plant, and Equipment*.

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

⁴ 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.

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.

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 programs.

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 IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *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 organization 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 recognized 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 recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are recognized in accordance with IPSAS 45.

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 sector 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. Public sector revenues may arise from transactions without binding arrangements or with binding arrangements. The majority of revenue of governments and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.
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 recognizes 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.⁵ 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

⁵ 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.

government that regulates those assets. In accordance with paragraph AG143, entities may, but are not required to, recognize services in-kind.

20. Each type of inflow of resources is analyzed and accounted for separately. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized 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 recognize as a liability until the obligations are satisfied (in accordance with paragraph 26).

Right to an Inflow of Resources

21. When an entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services, or other assets which may be a resource that meets the definition of an asset and is to be recognized 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 sector entity is not of itself sufficient to identify resources as controlled by an entity.⁶
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 recognize 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 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.

⁶ 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 recognize an inflow of resources (resources receivable) at the time of the announcement.

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 recognized 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 recognizes 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 recognizes revenue based on the nature of the requirements in its revenue transaction. An entity shall recognize revenue from a transaction without a binding arrangement:**
 - (a) **When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or**
 - (b) **Immediately if the entity does not have an enforceable obligation associated with the inflow of resources.**

Measurement

Measurement of Assets from an Inflow of Resources

30. **An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant IPSAS.**
31. After initial recognition, an entity shall subsequently measure:
 - (a) A receivable asset:
 - (i) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or
 - (ii) Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.
 - (b) All other assets as prescribed by the applicable IPSAS.

Measurement of Liabilities

32. **The amount recognized 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 recognized.**
33. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. 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 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) recognized by the entity.**
35. When, as a result of a revenue transaction without a binding arrangement, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 30, subject to any liability recognized in accordance with paragraphs 26–28.

Taxes

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

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 recognized 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 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 recognized 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 recognized 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 recognized 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 judgment 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 recognized separately in the statement of financial performance. 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 behavior and discourage other behavior. 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. 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 recognize 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.

REVENUE

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 recognized 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 recognized 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 customizes, or are significantly modified or customized 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 recognize 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 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 recognize 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 sector entities typically receive resources from governments or other entities. When an entity recognizes 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 recognize the gross amounts in its financial statements: that is, the entity will recognize 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 recognizes 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 recognized as a liability when, and only when the amount of the obligation can be measured reliably. The entity shall continue to recognize 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 recognize:**
 - (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 recognize 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 recognized 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 recognizes 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 recognizes 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 recognize 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 IPSAS 3.

Reasonable Measures of Progress

103. An entity shall recognize 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 recognize 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 recognize 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 recognized 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 recognized 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 recognize 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 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 recognize 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 recognized 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 recognized 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 judgment 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 recognize 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 financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement.

Non-Cash Consideration

- 129. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant IPSAS, as at the time when the criteria for asset recognition are satisfied.

- 130. If an entity cannot reasonably estimate the current value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone value of the goods or services that are required to be used internally or transferred to the purchaser or third-party beneficiary (or class of resource provider) for the consideration.
- 131. The current value of the non-cash consideration may vary because of the form of the consideration. If the current 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 labor) 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 recognized shall be a proportionate amount of the resource inflow recognized 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 maximize 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 recognized 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 recognize 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 recognized 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 recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to Fulfill a Binding Arrangement

152. **If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, IPSAS 12, *Inventories*, IPSAS 31, or IPSAS 45), an entity shall recognize an asset from the costs incurred to fulfill 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 labor (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, equipment and right-of-use assets used in fulfilling the binding arrangement);
 - (d) Costs that are explicitly chargeable to the resource provider under the binding arrangement; and
 - (e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).
155. An entity shall recognize 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, labor or other resources to fulfill 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 fulfillment); 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).

Amortization and Impairment

156. An asset recognized in accordance with paragraph 148 or 152 shall be amortized 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 amortization 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 IPSAS 3.
158. An entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized 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 recognized 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 recognizes an impairment loss for an asset recognized in accordance with paragraph 148 or 152, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 31, and IPSAS 45). After applying the impairment test in paragraph 158, an entity shall include the resulting carrying amount of the asset recognized 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 IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.
161. An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized 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 amortization) if no impairment loss had been recognized previously.

Presentation

Display

162. When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the resource provider's transfer of consideration. An entity shall present any unconditional rights to consideration separately as a receivable.
163. If a resource provider transfers cash or another asset, or an entity has a right to consideration that is unconditional (i.e., a receivable), before the entity satisfies its compliance obligation, the entity shall present the binding arrangement as a binding arrangement liability when the transfer of consideration is made or is due (whichever is earlier). A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received consideration (or an amount of an unconditional transfer of consideration is due) from the resource provider.
164. If an entity performs by satisfying a compliance obligation before the transfer of consideration is received or before the unconditional transfer of consideration is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time. An entity shall assess a binding arrangement asset for impairment in accordance with 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 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 recognize 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 IPSAS 41 and the corresponding amount of revenue recognized 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 judgments, and changes in the judgments, made in applying this Standard to those binding arrangements (see paragraphs 188–190); and**
 - (d) **Any assets recognized from the costs to obtain or fulfill a binding arrangement with a resource provider in accordance with paragraph 148 or 152 (see paragraphs 191–192).**
168. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics. See paragraphs AG203–AG204 for additional guidance.
169. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**
- (a) **The amount of revenue from transactions recognized 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 recognized at the reporting date in respect of revenue;**
 - (c) **The amount of liabilities recognized at the reporting date in respect of transferred assets subject to compliance obligations;**
 - (d) **The amount of liabilities recognized 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 judgments, and changes in the judgments, 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 recognized.**
171. In the public sector, an 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 recognized after application of paragraphs 25 and 105 of this Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 115;
 - (c) The amount from these transactions that was not recognized 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 recognized 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 recognized as revenue after identification of the implicit price concession; and
 - (ii) The amount from these transactions that was not recognized 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 recognized, 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 recognize 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 recognize 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 recognized or not. Such disclosures may assist users to make informed judgments 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 financial performance in accordance with other Standards:
- (a) Revenue recognized from binding arrangements with compliance obligations, separately from its other sources of revenue; and
 - (b) Any impairment losses recognized (in accordance with 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 recognized in respect of compliance obligations assists users in making judgments 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 recognized 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. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 179) and revenue information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.

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 recognized in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and
 - (c) Revenue recognized in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).
182. An entity shall explain how the timing of satisfaction of its compliance obligations (see paragraph 184(a)) relates to the typical timing of payment (see paragraph 184(b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.
183. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:
- (a) Changes due to public sector combinations;
 - (b) 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;
 - (c) Impairment of a binding arrangement asset;
 - (d) 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
 - (e) 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:
- (a) 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
 - (b) An explanation of when the entity expects to recognize 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:
- (a) The compliance obligation is part of a binding arrangement that has an original expected duration of one year or less; or
 - (b) The entity recognizes 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 Judgments 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 recognize 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 judgments 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 Recognized from the Costs to Obtain or Fulfill a Binding Arrangement with a Resource Provider

191. An entity shall describe both of the following:
- (a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 148 or 152); and
 - (b) The method it uses to determine the amortization for each reporting period.
192. An entity shall disclose all of the following:
- (a) The closing balances of assets recognized from the costs incurred to obtain or fulfill 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 amortization and any impairment losses recognized in the reporting period.

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.

Effective Date and Transition

Effective Date

194. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.**
195. When an entity adopts the accrual basis IPSAS as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

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 IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*; or
 - (ii) The entity has satisfied all of its promises identified in accordance with IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*.
197. An entity shall apply this Standard using one of the following two methods:
- (a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 199; or
 - (b) Retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application in accordance with paragraphs 201–203.
198. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of 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 retrospectively in accordance with paragraph 197(a)). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.
199. An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph 197(a):
- (a) For completed binding arrangements, an entity need not restate binding arrangements that:
 - (i) Begin and end within the same annual reporting period; or

- (ii) Are completed binding arrangements at the beginning of the earliest period presented.
 - (b) For completed binding arrangements that have variable consideration, an entity may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - (c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 65–66. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
 - (i) Identifying the satisfied and unsatisfied compliance obligations;
 - (ii) Determining the transaction consideration; and
 - (iii) Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.
 - (d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the remaining compliance obligations and an explanation of when the entity expects to recognize that amount as revenue.
200. For any of the practical expedients in paragraph 199 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:
- (a) The expedients that have been used; and
 - (b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
201. If an entity elects to apply this Standard retrospectively in accordance with paragraph 197(b), the entity shall recognize 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 retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for an entity with a December 31 year-end).
202. An entity applying this Standard retrospectively in accordance with paragraph 197(b) may also use the practical expedient described in paragraph 199(c), either:
- (a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or
 - (b) For all modifications to a binding arrangement that occur before the date of initial application.
- If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 200.
203. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph 197(b):

- (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to IPSAS 9, IPSAS 11, and 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) IPSAS 9, issued in 2001;
- (b) IPSAS 11, issued in 2001; and
- (c) IPSAS 23, issued in 2006.

IPSAS 9, IPSAS 11, and IPSAS 23 remain applicable until IPSAS 47 is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of IPSAS 47.

AG1. This Application Guidance is organized 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);

REVENUE

- (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 sector 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 IPSAS 16, *Investment Property*, IPSAS 31, *Intangible Assets*, or IPSAS 45, *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 sector combinations. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector 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 sector combinations are accounted for in accordance with IPSAS 40, *Public Sector 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 IPSAS 1, *Presentation of Financial Statements*. 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 recognizes 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 IPSAS 28, *Financial Instruments: Presentation*, when distinguishing liabilities from contributions from owners.

Definitions (paragraphs 4–8)*Binding Arrangement*

- AG10. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations conferred on them in the arrangement.
- AG11. This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this Standard to a portfolio of binding arrangements (or compliance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.
- AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

Identify the Revenue Transaction (paragraphs 9–15)

- AG13. An entity shall consider the terms of its revenue transaction and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to arrangements with similar characteristics and in similar circumstances.

Enforceability

- AG14. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties in the arrangement accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG15. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name; however, there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through "equivalent means", the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of

the resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the arrangement.

- AG16. In the public sector, 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 fulfill 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.

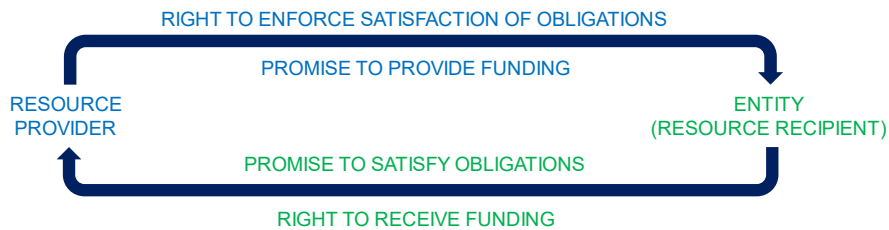
- AG23. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding 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 public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.
- AG27. For public sector-specific transactions with binding arrangements, the resource provider is the party that provides consideration to the entity for goods or services set out in a binding arrangement but is not necessarily the party that receives those goods or services. The resource provider may provide consideration for the entity to:
- (a) Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return;

- (b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser⁷, as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or
- (c) Transfer distinct goods or services to a third-party beneficiary. In multi-party arrangements (discussed below), the resource provider has a binding arrangement with and provides consideration to the entity to deliver goods or services to a third-party beneficiary. For example, if a central government provides funding to a regional 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.

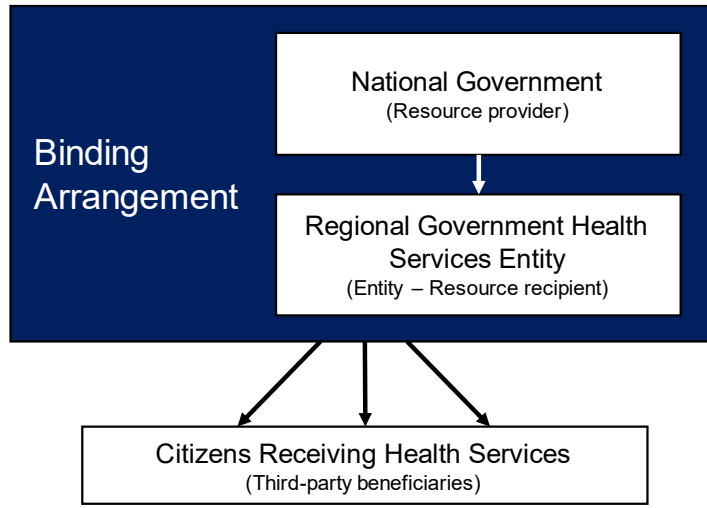
AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must be able to enforce satisfaction of the obligations assumed by the entity receiving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

⁷ 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.

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 current 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 judgment 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 authorization of the financial statements for issue, the entity will recognize a liability for the amount to be refunded to the resource provider and derecognize any revenue recognized 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 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 judgment may be required in measuring those items as described in 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 authorized for issue or could reasonably be expected to have been obtained; or
 - (c) Separate past event because the amount recognized 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 recognize revenue as or when it satisfies each of the identified compliance obligations in accordance with the terms and conditions of the binding arrangement.
- AG45. In the public sector, identifying compliance obligations may require significant judgment. 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 sector entity in a binding arrangement may include:

- (a) Transfers from national governments to provincial, state or local governments;
- (b) Transfers from state/provincial governments to local governments;
- (c) Transfers from governments to other public sector entities;
- (d) Transfers to governmental agencies that are created by laws or regulations to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and
- (e) Transfers from donor agencies to governments or other public sector 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 municipal water provided for a fee);

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- (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 program 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 organized 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 works department building a recreational facility for another municipality);
- (j) Granting licenses (see paragraphs AG168–AG182); and
- (k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG126–AG130)).

AG52. An entity earns and recognizes 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 recognize 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 recognized 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 recognize 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 sector 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 recognized 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 recognize 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 recognized 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 recognize 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 recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labor 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 recognize 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 recognize 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, labor 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

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adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize 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:

- (i) The good is not distinct;
- (ii) The party receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good;
- (iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the compliance obligation; and
- (iv) 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 recognize 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 recognized 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 recognize revenue but shall recognize 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 recognized.

- 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 recognize corresponding adjustments as revenue (or reductions of revenue).
- AG101. An asset recognized 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 color 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 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 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 recognize the reduction of revenue when (or as) the later of either of the following events occurs:

- (a) The entity recognizes 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. In the public sector, the determination of a stand-alone value for a compliance obligation in accordance with paragraph 137 may be challenging, particularly in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone value is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone value using the expected cost approach, as noted in paragraph 139(b).

Warranties for Goods or Services Transferred to Another Party

- 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 IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty, or a part of the promised warranty, provides the purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.
- AG114. In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:
- (a) Whether the warranty is required by law – if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a compliance obligation because such requirements typically exist to protect resource providers from the risk of purchasing defective products.
 - (b) The length of the warranty coverage period – the longer the coverage period, the more likely it is that the promised warranty is a compliance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.
 - (c) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a compliance obligation.
- AG115. If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a compliance obligation. Therefore, an entity shall allocate the transaction consideration to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single compliance obligation.

AG116. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a compliance obligation. For example, a manufacturer such as a government medical laboratory might sell products such as diagnostic ultrasound scanners to both government-owned and privately-owned medical centers 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 IPSAS 19.

Principal versus Agent Considerations

AG117. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a compliance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser or third-party beneficiary. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see paragraphs 73–77 and AG53–AG56). If a binding arrangement with a resource provider includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

AG118. To determine the nature of its promise (as described in paragraph AG117), the entity shall:

- (a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see paragraph AG51)); and
- (b) Assess whether it controls (as described in paragraph 90) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG119. An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. An entity that is a principal may satisfy its compliance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the compliance obligation on its behalf.

AG120. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

- (a) A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary.
- (b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.
- (c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For

example, if an entity provides a significant service of integrating goods or services (see paragraph 76(a)) provided by another party into the specified good or service for which the resource provider has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

AG121. When (or as) an entity that is a principal satisfies a compliance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG122. An entity is an agent if the entity's compliance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a compliance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

AG123. Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph AG119)) include, but are not limited to, the following:

- (a) The entity is primarily responsible for satisfying the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting resource provider specifications). If the entity is primarily responsible for satisfying the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the resource provider (for example, if the resource provider has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a resource provider, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.
- (c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the resource provider pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

- AG124. The indicators in paragraph AG123 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.
- AG125. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance obligation to transfer the specified good or service to the purchaser or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that compliance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Resource Provider Options for Additional Goods or Services

- AG126. Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.
- AG127. If, in a binding arrangement, an entity grants a resource provider the option to acquire additional goods or services, that option gives rise to a compliance obligation in the binding arrangement only if the option provides a material right to the resource provider that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of resource provider in that geographical area or market). If the option provides a material right to the resource provider, the resource provider in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires.
- AG128. If a resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone value for that good or service, that option does not provide the resource provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the resource provider exercises the option to purchase the additional goods or services.
- AG129. Paragraph 134 requires an entity to allocate the transaction consideration to compliance obligations on a relative stand-alone value basis. If the stand-alone value for a resource provider's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the resource provider would obtain when exercising the option, adjusted for both of the following:
- (a) Any discount that the resource provider could receive without exercising the option; and
 - (b) The likelihood that the option will be exercised.
- AG130. If a resource provider has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone value of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided

and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Resource Providers' Unexercised Rights

AG131. In accordance with paragraph 163, upon receipt of a prepayment from a resource provider, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its compliance obligation. An entity shall derecognize its binding arrangement liability (and recognize revenue) when it satisfies the compliance obligation associated with the consideration previously received from the resource provider.

AG132. A resource provider's non-refundable prepayment to an entity gives the resource provider a right to have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG133. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize 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 recognize the expected breakage amount as revenue when the likelihood of the resource provider exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs 119–121 on constraining estimates of variable consideration.

AG134. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a resource provider's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

AG135. In some binding arrangements, an entity charges a resource provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a healthcare membership, activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG136. To identify compliance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement to satisfy the binding arrangement, that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see paragraph 72). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the resource provider the option to renew the binding arrangement and that option provides the resource provider with a material right as described in paragraph AG127.

AG137. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate compliance obligation in accordance with paragraphs 68–77.

AG138. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 72). If those setup activities do not satisfy a compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG95. That is because the costs of setup activities do not depict the transfer of services to a purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph 152.

Application of Principles to Specific Transactions

AG139. Public sector entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph AG143, an entity shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Capital Transfers

AG140. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes at least one compliance obligation on the entity.

AG141. An entity shall recognize 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 recognized as an asset by applying paragraph 80, and whether its compliance obligation is to be recognized as a liability by applying paragraphs 81–86. The carrying amount of any such liability is reduced as revenue is recognized.

AG142. Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once acquired or constructed. Any compliance obligations related to the operation of the asset would be accounted for in accordance with the requirements of this Standard.

Services In-Kind

AG143. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

AG144. Although recognition of services in-kind is not required by this Standard, entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations.

AG145. Services in-kind are services provided by individuals to public sector 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 recognized 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 recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

AG146. Public sector 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 other governments or international organizations;
- (b) Persons convicted of offenses may be required to perform community service for a public sector entity;
- (c) Public hospitals may receive the services of volunteers;
- (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and
- (e) Local governments may receive the services of volunteer fire fighters.

AG147. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph AG146, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

AG148. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 175, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.

AG149. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

AG150. Pledges are unenforceable promises to transfer assets to the entity in the future. Pledges do not meet the definition of an asset, because the entity is unable to control the access of the resource provider to the future economic benefits or service potential embodied in the item pledged. Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the entity, it is recognized as a gift or donation, in accordance with paragraphs AG164–AG167. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

AG151. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognize 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 recognized as a liability (deferred revenue), in accordance with paragraphs 81–86, when the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

Concessionary Loans

AG152. Concessionary loans are loans received by an entity at below-market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with 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 IPSAS 41) is revenue that should be accounted for in accordance with this Standard.

AG153. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognizes 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 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 receives consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

- (a) Assets such as inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date;
- (b) Property, plant, and equipment assets acquired through revenue transactions are to be measured at their deemed cost as at the acquisition date. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost (where such assets held for their operational capacity are

measured at current operational value, and assets held for their financial capacity are measured at fair value); and

- (c) Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument are to be measured at their transaction consideration as at the acquisition date in accordance with paragraph 109 and the appropriate accounting policy.

Debt Forgiveness and Assumptions of Liabilities

AG155. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national 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 recognizes an increase in net assets.

AG156. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

AG157. Where a controlling entity forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs AG7–AG9.

AG158. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG159. Fines are economic benefits or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws and/or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

AG160. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 18. As noted in paragraph 5, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

AG161. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws and/or regulations of the jurisdiction.

AG162. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the transaction consideration of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

AG163. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG166. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction consideration of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the transaction consideration of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG164. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements. The resource provider may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. The making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits or service potential flowing to the entity.

AG165. Goods in-kind are tangible assets transferred to an entity in a transaction that do not require a transfer of distinct goods or services to an external party but may be subject to certain obligations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG166. Recognition of gifts or donations of services in-kind are addressed in paragraphs AG143–AG149. Gifts and donations other than services in-kind and goods in-kind are recognized 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.

AG167. On initial recognition, gifts and donations (including goods in-kind) are measured at their transaction consideration as at the acquisition date, in accordance with paragraph 30.

Licensing

AG168. A license establishes a resource provider's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

- (a) Software and technology;
- (b) Motion pictures, music and other forms of media and entertainment;
- (c) Franchises; and
- (d) Patents, trademarks and copyrights.

AG169. In addition to a promise to grant a license (or licenses) 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 license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 68–77 to identify each of the compliance obligations in the binding arrangement.

AG170. If the promise to grant a license 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 license and those other promised goods or services together as a single compliance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

- (a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and
- (b) A license 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 license, the purchaser or third-party beneficiary to access content).

AG171. If the license is not distinct, an entity shall apply paragraphs 87–97 to determine whether the compliance obligation (which includes the promised license) is a compliance obligation that is satisfied over time or satisfied at a point in time.

AG172. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate compliance obligation, an entity shall determine whether the license 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 license 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 license period; or
- (b) A right to use the entity's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Entity's Promise

AG173. The nature of an entity's promise in granting a license 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 license directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG173(a); and

- (c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph 72).

AG174. Factors that may indicate that a resource provider could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the resource provider related to the intellectual property to which the resource provider has rights may also indicate that the resource provider could reasonably expect that the entity will undertake such activities.

AG175. An entity's activities significantly affect the intellectual property to which the resource provider has rights when either:

- (a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- (b) The ability of the resource provider to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

AG176. Accordingly, if the intellectual property to which the resource provider has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchaser or third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

AG177. If the criteria in paragraph AG173 are met, an entity shall account for the promise to grant a license as a compliance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 95(a)). An entity shall apply paragraphs 98–104 to select an appropriate method to measure its progress towards complete satisfaction of that compliance obligation to provide access.

AG178. If the criteria in paragraph AG173 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license 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 license at the point in time at which the license 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 license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license 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 license. 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 recognize revenue before that code has been provided (or otherwise made available).

AG179. An entity shall disregard the following factors when determining whether a license 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 license, 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 unauthorized 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 license transferred meets the specifications of the license promised in the binding arrangement.

Sales-Based or Usage-Based Royalties

AG180. Notwithstanding the requirements in paragraphs 119–121, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

- (a) The subsequent sale or usage occurs; and
- (b) The compliance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG181. The requirement for a sales-based or usage-based royalty in paragraph AG180 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license 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 license than to the other goods or services to which the royalty relates).

AG182. When the requirement in paragraph AG181 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG180. When the requirement in paragraph AG181 is not met, the requirements on variable consideration in paragraphs 113–122 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG183. When evaluating whether an entity transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset.

AG184. A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the resource provider, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

AG185. Repurchase agreements generally come in three forms:

- (a) An entity's obligation to repurchase the asset (a forward);
- (b) An entity's right to repurchase the asset (a call option); and
- (c) An entity's obligation to repurchase the asset at the resource provider's request (a put option).

A Forward or a Call Option

AG186. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a resource provider does not obtain control of the asset because the resource provider is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset even though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

- (a) A lease in accordance with IPSAS 43, *Leases*, if the entity can or must repurchase the asset for an amount that is less than the original price of the asset; or
- (b) A financing arrangement in accordance with paragraph AG188 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset.

AG187. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG188. If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the resource provider. The entity shall recognize the difference between the amount of consideration received from the resource provider and the amount of consideration to be paid to the resource provider as interest and, if applicable, as processing or holding costs (for example, insurance).

AG189. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

A Put Option

AG190. If an entity has an obligation to repurchase the asset at the resource provider's request (a put option) at a price that is lower than the original price of the asset, the entity shall consider at the inception of the binding arrangement whether the resource provider has a significant economic incentive to exercise that right. The resource provider's exercising of that right results in the resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the resource provider has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IPSAS 43.

AG191. To determine whether a resource provider has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market

value of the asset, this may indicate that the resource provider has a significant economic incentive to exercise the put option.

AG192. If the resource provider does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG193. If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG188.

AG194. If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the resource provider does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG195. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG196. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

Consignment Arrangements

AG197. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchasers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG198. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

- (a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a resource provider of the dealer or until a specified period expires;
- (b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and
- (c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Bill-and-Hold Arrangements

AG199. A bill-and-hold arrangement is a binding arrangement under which an entity bills a resource provider for a product, but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may request an entity to enter into such a binding arrangement because of the resource provider's lack of available space for the product or because of delays in the resource provider's production schedules.

AG200. An entity shall determine when it has satisfied its compliance obligation to transfer a product by evaluating when a resource provider obtains control of that product (see paragraph 97). For some

binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a resource provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the resource provider over the resource provider's asset.

AG201. In addition to applying the requirements in paragraph 97, for a resource provider to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

- (a) The reason for the bill-and-hold arrangement must be substantive (for example, the resource provider has requested the arrangement);
- (b) The product must be identified separately as belonging to the resource provider;
- (c) The product currently must be ready for physical transfer to the purchaser or third-party beneficiary; and
- (d) The entity cannot have the ability to use the product or to direct it to another resource provider.

AG202. If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining compliance obligations (for example, for custodial services) in accordance with paragraphs 68–77 to which the entity shall allocate a portion of the transaction consideration in accordance with paragraphs 133–143.

Disclosure (paragraphs 167–193)

AG203. An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

AG204. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

Disclosure of Disaggregated Revenue (paragraphs 179–180)

AG205. Paragraph 179 requires an entity to disaggregate revenue from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements. Some entities may need to use more than one type of category to meet the objective in paragraph 179 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG206. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:

REVENUE

- (a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);
- (b) Information regularly reviewed for evaluating the financial performance of segments; and
- (c) Other information that is similar to the types of information identified in paragraphs AG206(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG207. Examples of categories that might be appropriate include, but are not limited to, the following:

- (a) Type of compliance obligation;
- (b) Geographical region (for example, country or region);
- (c) Market or type of purchaser resource provider (for example, government and non-government resource providers);
- (d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);
- (e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements);
- (f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time);
- (g) Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and
- (h) Revenue earned from the provision of goods or services to third-party beneficiaries.

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 50, 88, 94, and 135 are amended, and paragraph 153Q is added. New text is underlined and deleted text is struck through.

...

Overall Considerations

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Offsetting

50. ~~IPSAS 9, *Revenue from Exchange Transactions*, 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 recognized reflects any trade discounts and volume rebates allowed by the entity. ~~An entity undertakes, 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]~~

(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 IPSASs 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;

...

...

Disclosure of Accounting Policies

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135. Each entity considers the nature of its operations and the policies that the user of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of ~~non-exchange-revenue~~. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

...

Effective Date

...

153Q. Paragraphs 50, 88, 94, and 135 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 1.

Illustrative Financial Statement Structure

...

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

...

REVENUE

Public Sector Entity—Statement of Financial Performance 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 <u>Other compulsory contributions and levies</u>	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities <u>without a binding arrangement</u>	X	X
<u>Revenue from compliance obligations in a binding arrangement</u>	X	X
Other revenue	X	X
Total revenue	<u>X</u>	<u>X</u>
...
...		

Public Sector Entity—Statement of Financial Performance 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 <u>Other compulsory contributions and levies</u>	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities <u>without a binding arrangement</u>	X	X
<u>Revenue from compliance obligations in a binding arrangement</u>	X	X
Other revenue	X	X
Total Revenue	<u>X</u>	<u>X</u>
...
...		

Amendments to IPSAS 2, Cash Flow Statements

Paragraphs 21 and 22 are amended, and paragraph 63K 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 taxes~~ 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;

...

Effective Date

...

63K. Paragraphs 21 and 22 were amended by IPSAS 47, Revenue, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Illustrative Examples

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Notes to the Cash Flow Statement

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(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 national government. Cash payments of X were made to purchase property, plant, and equipment.

...

Indirect Method Cash Flow Statement (paragraph 27(a))

...

(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 national government. Cash payments of X were made to purchase property, plant, and equipment.

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraph 11 is amended, and paragraph 71I 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, grants, transfers, and fines;

...

...

Effective Date

...

71I. Paragraph 11 was amended by IPSAS 47, *Revenue* issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Illustrative Examples

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Example 2—Multiple Receipts for Revenue Recognized at a Single Point in Time

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IE7. Applying ~~paragraph 28 of IPSAS 9, *Revenue from Exchange Transactions*~~, IPSAS 47, *Revenue*, Entity B recognizes 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 IPSAS 5, *Borrowing Costs*

Paragraph 26 is amended, and paragraph 42G 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 capitalized. 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 capitalize 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 capitalize any such costs.

...

Effective Date

...

- 42G. Paragraph 26 was amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

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Amendments to IPSAS 9, *Revenue from Exchange Transactions*

Paragraph 11 is amended, and paragraph 41G is added. New text is underlined and deleted text is struck through.

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Definitions

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11. 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. In a non-exchange transaction, 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.~~

...

...

Effective Date

...

41G. Paragraph 11 was amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Amendments to IPSAS 12, *Inventories*

Paragraphs 2, 9, 11, 39, and 48 are amended, paragraph 51I is added, and paragraph 28 is deleted. New text is underlined and deleted text is struck through.

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Scope

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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 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.

...

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Inventories

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11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. ~~In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognized the related revenue. (guidance on recognition of revenue can be found in IPSAS 9, *Revenue from Exchange Transactions*.)~~ Costs incurred to fulfill a binding arrangement that does not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with IPSAS 47, *Revenue*.

...

~~*Cost of Inventories of a Service Provider*~~ [Deleted]

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 labor and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labor not engaged in providing the service are not included. Labor and other costs relating to sales and general administrative personnel are not included, but are recognized 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]~~

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Net Realizable Value

...

39. Inventories are usually written down to net realizable 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.~~

...

Effective Date

...

- 511. Paragraphs 2, 9, 11, 39, and 48 were amended, and paragraph 28 was deleted by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Amendments to IPSAS 16, *Investment Property*

Paragraphs 13, 78, and 81 are amended, and paragraph 101L 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 IPSAS 11, *Construction Contracts*).~~ [Deleted]

...

...

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 IPSAS 9 for recognizing revenue from the sale of goods and considers the related guidance in the

~~Implementation Guidance to IPSAS 9 is the date the recipient obtains control of the investment property in accordance with the requirements in IPSAS 47, *Revenue*. IPSAS 43 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 recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, using the effective interest method determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of 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 IPSAS 47.~~

...

Effective Date

...

- 101L. Paragraphs 13, 78, and 81 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Amendments to IPSAS 17, *Property, Plant, and Equipment*

Paragraphs 83A, 84, and 87 are amended, and paragraph 107T 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 recognized as revenue in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ 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 IPSAS 9 for recognizing 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 IPSAS 47. IPSAS 43 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 recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of 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 IPSAS 47.

...

Effective Date

...

- 107T. Paragraphs 83A, 84, and 87 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Amendments to IPSAS 18, *Segment Reporting*

Paragraphs 27 and 39 are amended, and paragraph 76H is added. New text is underlined and deleted text is struck through.

...

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

27. **The following additional terms are used in this Standard with the meanings specified:**

...

Segment revenue is revenue reported in the entity’s statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or sales to external customers ~~the provision of goods or services to other parties~~ or from transactions with other segments of the same entity. Segment revenue does not include:

...

Segment Assets, Liabilities, Revenue, and Expense

...

39. Some guidance for cost allocation can be found in other IPSAS and may be useful in attributing and allocating costs to segments. For example, IPSAS 12, *Inventories*, provides guidance for attributing and allocating costs to inventories, ~~and IPSAS 11, *Construction Contracts*, provides guidance for attributing and allocating costs to contracts. That guidance may be useful in attributing and allocating costs to segments.~~

...

Effective Date

...

- 76H. Paragraphs 27 and 39 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 13, 15, and 107 are amended, and paragraph 111O 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 IPSAS 11, *Construction Contracts*); and [Deleted]~~
 - (b) ~~... and~~
 - (c) Revenue from binding arrangements (see IPSAS 47, *Revenue*). However, as 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. ~~IPSAS 9, Revenue from Exchange Transactions~~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 recognized, and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of ~~IPSAS 9~~IPSAS 47.

...

Disclosure

...

107. The disclosure requirement in paragraph 105 encompasses contingent assets from an entity's transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are ~~to be dealt with as a part of a separate project on non-exchange~~ addressed in IPSAS 47.

...

Effective Date

...

1110. Paragraphs 13, 15, and 107 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraphs 2 and 8 are amended, and paragraph 82N 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 IPSAS 11, Construction Contracts);~~ Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with 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 fulfill a binding arrangement, because existing IPSASs applicable to these assets contain requirements for recognizing and measuring these assets.

...

Effective Date

...

82N. Paragraphs 2 and 8 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Amendments to IPSAS 24, Presentation of Budget Information in Financial Statements

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 24.

...

Additional Column Approach

For Government YY for the Year Ended December 31, 20XX

Both Annual Budget and Financial Statements Adopt Accrual Basis

(Illustrated only for Statement of Financial Performance. Similar presentation would be adopted for other financial statements.)

Actual 20XX-1	(in currency units)	Actual 20XX	Final Budget 20XX	Original Budget 20XX	*Difference: Original Budget and Actual
	Revenue				
X	Taxes	X	X	X	X
X	Fees, fines, penalties, and licenses Other compulsory contributions and levies	X	X	X	X
X	Revenue from exchange transactions	X	X	X	X
X	Transfers from other governments without a binding arrangement	X	X	X	X
X	<u>Revenue from compliance obligations in a binding arrangement</u>	X	X	X	X
	...				

...

* The "Difference..." column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs 2, 8 and 29 are amended, and paragraph 126P 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 IPSAS 11, *Construction Contracts*)~~ Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with 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 fulfill a binding arrangement, because existing standards applicable to these assets contain requirements for recognizing 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. IPSAS 27 dealing with biological assets related to agricultural activity 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.

...

Effective Date

...

126P. Paragraph 2, 8, and 29 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Amendments to IPSAS 27, *Agriculture*

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

...

Government Grants

BC5. IAS 41 specifies requirements and guidance for accounting for government grants related to biological assets that differ from the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. IPSAS 27 does not include requirements and guidance for government grants, because at the time this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* ~~provides~~ provided requirements and guidance related to government grants in non-exchange transactions. The IPSASB did not consider that accounting for government grants related to biological assets should vary from the requirements of IPSAS 23.

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

BC6. An entity may acquire a biological asset or agricultural produce in a non-exchange transaction. In accordance with this Standard, these assets would be measured at fair value less costs to sell. At the time this Standard was developed, IPSAS 23 prescribed that assets acquired through a non-exchange transaction should be measured initially at fair value as at the acquisition date. As a result of the different measurement requirements, the IPSASB considered the appropriate measurement basis for biological assets acquired in a non-exchange transaction.

BC7. ~~When~~ The the IPSASB debated various approaches to measuring biological assets and agricultural produce acquired through a non-exchange transaction. ~~In particular,~~ it considered, in particular, the following three approaches:

- (a) ...

...

- BC9. In analyzing approach 3, the IPSASB considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. ~~At the time this Standard was developed,~~ IPSAS 23.13 ~~states stated~~ that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17." This ~~implies~~ implied that for other assets, an entity ~~considers~~ considered the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.
- BC10. An additional attribute relevant to the measurement of biological assets is costs to sell. The IPSASB therefore concluded that in accordance with approach 3, an entity ~~considers~~ considered the requirements of both IPSAS 23 and this Standard in measuring biological assets and agricultural produce acquired in a non-exchange transaction at fair value less costs to sell at their initial recognition. The IPSASB noted that this is the same outcome as under approach 2.

...

Comparison with IAS 41

IPSAS 27, *Agriculture* is drawn primarily from IAS 41, *Agriculture* (2001), as amended up to December 31, 2008. The main differences between IPSAS 27 and IAS 41 are as follows:

- ...
- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less costs to sell. IPSAS 27 does not include requirements and guidance for government grants, because ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47, Revenue provides requirements and guidance related to government grants ~~in non-exchange transactions~~.
- ...

...

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraphs AG21, AG22, and AG46 are amended, and paragraph 60J is added. New text is underlined and deleted text is struck through.

...

Effective Date

...

- 60J. Paragraphs AG21, AG22 and AG46 were amended by IPSAS 47, Revenue, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Application Guidance

...

Scope

...

AG21. In the public sector, 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 ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ 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 ~~IPSAS 23~~ 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 IPSAS 47, 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.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 28.

...

Definitions

...

Contractual Non-Exchange Revenue Transactions

BC17. When this Standard was developed, IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) ~~prescribes~~ prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising out of non-exchange revenue transactions. The IPSASB considered the interaction between this Standard and IPSAS 23.

BC18. In considering whether assets and liabilities that arise from non-exchange revenue transactions ~~are~~ were financial assets and financial liabilities, the IPSASB identified that the following basic requirements should be fulfilled:

- ...

BC19. The IPSASB concluded that assets arising from non-exchange revenue transactions could meet these requirements. In particular, it noted that the nature of arrangements with donors may be contractual in nature, and may be settled by transferring cash or another financial asset from the

donor to the recipient. In these instances, assets arising from non-exchange revenue transactions ~~are~~ were financial assets.

- BC20. ~~Therefore, when this Standard was developed, the~~ The IPSASB agreed that, for financial assets arising from non-exchange transactions, an entity should apply the requirements of IPSAS 23 in conjunction with IPSAS 28. In particular, an entity should consider the principles in IPSAS 28 in considering whether an inflow of resources from a non-exchange revenue transaction ~~results~~ resulted in a liability or a transaction that evidences a residual interest in the net assets of the entity, i.e., an equity instrument.
- BC21. The IPSASB considered whether liabilities arising from non-exchange revenue transactions ~~are~~ were financial liabilities. Liabilities ~~are~~ were recognized in IPSAS 23 when an entity ~~receives~~ received an inflow of resources that is was subject to specific conditions. Conditions on a transfer of resources ~~are~~ imposed on an entity by a transferor ~~and require~~ required that the resources ~~are~~ were used in a certain way, often to provide goods ~~and~~ or services to third parties, or ~~are~~ were returned to the transferor. This ~~gives~~ gave rise to an obligation to perform in terms of the agreement. At initial recognition, an entity ~~recognizes~~ recognized the resources as an asset and, where they are subject to conditions, ~~recognizes~~ recognized a corresponding liability.
- BC22. ~~While developing this Standard, the~~ The IPSASB considered whether the liability initially recognized is in the nature of a financial liability or another liability, e.g., a provision. The IPSASB agreed that, at the time the asset is recognized, the liability is not usually a financial liability as the entity's obligation is to fulfil the terms and conditions of the arrangement by utilizing the resources as intended, usually by providing goods ~~and~~ or services to third parties over a period of time. If after initial recognition, the entity cannot the fulfil the terms of the arrangement and is required to return the resources to the transferor, an entity would assess at this stage whether the liability is a financial liability considering the requirements set out in paragraph BC18 and the definitions of a financial instrument and a financial liability. In rare circumstances, a financial liability may arise from conditions imposed on a transfer of resources as part of a non-exchange revenue transaction. The IPSASB may consider such a scenario as part of a future project.
- BC23. ~~While developing this Standard, the~~ The IPSASB also noted that other liabilities may arise from non-exchange revenue transactions after initial recognition. For example, an entity may receive resources under an arrangement that ~~requires~~ required the resources to be returned only after the occurrence or non-occurrence of a future event. An entity assesses whether other liabilities arising from non-exchange revenue transactions are financial liabilities by considering whether the requirements in paragraph BC18 have been fulfilled and the definitions of a financial instrument and a financial liability have been met.

...

Amendments to IPSAS 29, *Financial Instruments: Recognition and Measurement*

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 29.

...

Scope

BC5. Assets and liabilities may arise out of contractual non-exchange revenue transactions. The initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions ~~is~~was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 ~~does~~did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC6. When this Standard was being developed, ~~The~~ the IPSASB agreed that where an asset acquired in a non-exchange transaction ~~is~~was a financial asset, an entity:

- Initially ~~recognizes~~recognized the asset using IPSAS 23; and
- Initially ~~measures~~measured the asset using IPSAS 23 and, ~~considers~~considered the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

As IPSAS 23 ~~does~~did not prescribe subsequent measurement or derecognition requirements for assets acquired in a nonexchange transaction, this Standard is applied to those assets if they are financial assets.

...

Initial Measurement

BC9. The IPSASB acknowledged that there ~~is~~was an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 ~~requires~~required that assets acquired in a non-exchange revenue transaction are measured initially at fair value. This Standard ~~requires~~required financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC10. At that time, ~~t~~he IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

...

Financial Guarantees Issued Through a Non-Exchange Transaction

...

BC17. Where the financial guarantee contract is entered into for consideration, the IPSASB considered whether the amount of such consideration should be deemed to be a fair value. Application Guidance in IAS 39 states that “the fair value of a financial instrument on initial recognition is normally the transaction price.” In the public sector the IPSASB considered that in many cases the transaction price (consideration) related to a financial guarantee contract will not reflect fair value and that recognition at such an amount would be an inaccurate and misleading reflection of the issuer’s exposure to financial risk. The IPSASB concluded that where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and therefore represents a fair value. If the consideration does represent a fair value, the IPSASB concluded that entities should recognize the financial guarantee at the amount of the consideration and that subsequent measurement should be at the higher of the amount determined in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized, less, when appropriate, the cumulative amount of revenue amortization recognized in accordance with ~~IPSAS 9, *Revenue from Exchange Transactions*~~ IPSAS 47, *Revenue*. Where the transaction ~~price~~ consideration is not a fair value, an entity should be required to determine measurement at initial recognition in the same way as if no consideration had been paid.

...

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs 5A, 42A, 42H, 42M, and 42N are amended, and paragraph 52N 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~~ exchange-revenue transactions ~~that are within the scope of IPSAS 9 and non-exchange transactions within the scope of IPSAS 23~~ within the scope of IPSAS 47, *Revenue* which give rise to financial instruments for the purpose of recognizing impairment gains or losses in accordance with paragraph 3 of 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 IPSAS 41 are applied. However:

- (a) For receivables that result from ~~exchange~~ revenue transactions that are within the scope of ~~IPSAS 9 and non-exchange transactions within the scope of IPSAS 23~~IPSAS 47 and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 87 of 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 IPSAS 9 or non-exchange transactions that are within the scope of IPSAS 23~~IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of 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 IPSAS 9 or non-exchange transactions that are within the scope of IPSAS 23~~IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

...

42N. For receivables that result from ~~exchange~~ revenue transactions ~~that are within the scope of IPSAS 9 or non-exchange transactions that are within the scope of IPSAS 23~~ IPSAS 47 or lease receivables to which an entity applies paragraph 87 of IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of IPSAS 41).

...

Effective Date

...

52N. Paragraphs 5A, 42A, 42H, 42M, and 42N were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 6, 26, 113, 115, and AG6 are amended, and paragraph 132O is added. New text is underlined and deleted text is struck through.

...

Scope

...

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS 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 ~~IPSAS 41, *Construction Contracts*, and IPSAS 12, *Inventories*~~);
 - (e) ~~...; and~~
 - (f) ~~...; and~~
 - (g) Assets arising from binding arrangements that are recognized in accordance with 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 IPSAS 9, *Revenue from Exchange Transactions* for recognizing 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 IPSAS 47. IPSAS 43 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 recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of 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 IPSAS 47.

...

Effective Date

...

- 1320. Paragraphs 6, 26, 113, 115, and AG6 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Application Guidance

...

- AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the ~~ordinary~~ ordinary course of its operations (see ~~IPSAS 11 and IPSAS 12 and IPSAS 47~~) or leases that fall within the scope of IPSAS 43. 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 IPSAS 43.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

...

Scope

...

BC5. When this Standard was developed, IAS 38 contains contained requirements on exchanges of assets when the exchange transaction lacks commercial substance. The IPSASB considered whether this guidance ~~is~~ was necessary and concluded that it was not necessary because this issue ~~is~~ was addressed in IPSAS 23.

...

Intangible Assets Acquired through a Non-Exchange Transaction

BC8. At the time this Standard was developed IPSAS 23 ~~prescribes~~ prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising from non-exchange revenue transactions. This Standard addresses the circumstance where an intangible asset is acquired through a non-exchange transaction. The IPSASB agreed that, for intangible assets arising from such transactions, an entity applies the requirements of IPSAS 23 in conjunction with this Standard for initial measurement of the intangible asset and, accordingly, considers directly attributable costs specified in this Standard.

...

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraphs 30, AG56, and AG64 are amended, and paragraph 36G 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 ~~IPSAS 9, Revenue from Exchange Transactions~~IPSAS 47, Revenue.

...

Effective Date

...

36G. Paragraphs 30, AG56, and AG64 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Application Guidance

This Appendix is an integral part of 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 ~~IPSAS 9~~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 recognized in accordance with ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~IPSAS 47.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 32.

...

Scope

...

BC5. When this Standard was issued, the ~~The~~ IPSASB had also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions).

...

Recognition of a Liability

...

BC21. The IPSASB agreed that clarification of this issue was required. When this Standard was developed, ~~The~~ the IPSASB noted that using the term "performance obligation" could give rise to confusion because it is ~~is~~ was used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions.

...

Grant of a Right to the Operator Model

BC29. In responding to the issues raised by respondents to ED 43, the IPSASB had reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB had noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the ~~Board~~ IPSASB had referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue.

...

BC31. The IPSASB therefore had considered whether the credit should be accounted for as a liability, as a direct increase to net assets/equity, or as revenue.

BC32. The IPSASB had ~~it was~~ agreed that, in this circumstance, the grantor does not have a liability because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC33. Some respondents to ED 43 had indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, *Presentation of Financial Statements* which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

...

BC34. The IPSASB had concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

...

BC35. When this Standard was issued, the ~~The~~ IPSASB had agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third-party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC36. When this Standard was issued, the ~~The~~ IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result was ~~is~~ consistent with IPSAS 9 in which an

entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues.

BC37. When this Standard was issued, the ~~The~~ revenue was ~~is~~ measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received could not ~~cannot~~ be measured reliably, the revenue was ~~is~~ measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

BC38. When this Standard was issued, IPSAS 9 ~~had identified~~ identifies three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity’s assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB had considered these types of transactions separately.

BC39. The IPSASB had considered the approaches to revenue recognition set out in IPSAS 9 in relation to the “grant of a right to the operator” model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB had noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB had determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

...

Implementation Guidance

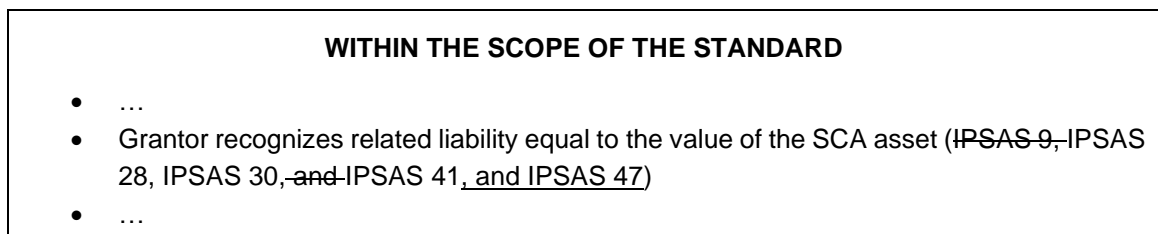
This guidance accompanies, but is not part of, IPSAS 32.

...

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.

...



...

IG4. Shaded text shows arrangements within the scope of 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/ Privatization/ 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 IPSASs	IPSAS 43	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) IPSAS 9 IPSAS 47 (revenue recognition)	

...

Amendments to IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 32, 41, and 42 and 43 and their related heading are amended, and paragraph 154N is added. New text is underlined and deleted text is struck through.

...

Fair Presentation and Compliance with IPSASs

...

32. For example, a first-time adopter adopts the three-year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of ~~non-exchange~~ revenue. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSASs will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSASs at the date of adoption of accrual basis IPSASs or during the period of transition.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

Three-Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

...

41. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three-year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue ~~in terms of IPSAS 9, Revenue from Exchange Transactions~~, or other receivables settled in cash or another financial asset, in terms of ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47, Revenue.

Recognition and/or Measurement of Non-Exchange Revenue

42. A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of ~~non-exchange revenue~~ for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of revenue ~~from non-exchange transactions~~ on a class-by-class basis.
43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue ~~from non-exchange transactions~~ in accordance with ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ IPSAS 47 during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue ~~from non-exchange transactions~~ that do not comply with the provisions of ~~IPSAS 23-IPSAS 47~~. The transitional provision in paragraph 42 allows a first-time adopter to apply ~~IPSAS 23-IPSAS 47~~ incrementally to different classes of revenue ~~from non-exchange transactions~~. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of revenue from transactions without binding arrangements in accordance with ~~IPSAS 23-IPSAS 47~~ from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for reorganizing and measuring revenue from income tax and revenue from transactions with binding arrangements.

...

Effective Date

...

- 154N. Paragraphs 32, 41, and 42 and 43 and their related heading were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition and Measurement of ~~Non-Exchange~~ Revenue

IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) and IPSAS 47, Revenue

- BC64. When this Standard was developed, the existing transitional provisions in IPSAS 23 allow ~~allowed~~ a first-time adopter to not change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also ~~allows~~ allowed a first-time adopter to not change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also ~~requires~~ required that changes in accounting policies should only be made to better conform to IPSAS 23.
- BC65. The IPSASB concluded that it ~~will~~ would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of the accrual basis. In line with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSASs, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23 at the time this Standard was developed, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSASs. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.
- BC65A. IPSAS 47, Revenue, was issued in May 2023 and replaced IPSAS 9, IPSAS 11, Construction Contracts, and IPSAS 23, and requires an entity to identify and account for revenue based on whether it arises from a binding arrangement rather than by its classification as exchange or non-exchange. In its development, the IPSASB noted that it will be similarly challenging for public sector entities to implement IPSAS 47. The accounting for revenues without binding arrangements, which will encompass most non-exchange transactions previously in the scope of IPSAS 23, would continue to pose practical challenges. The accounting for revenues arising from binding arrangements (which may include both exchange or non-exchange revenues) may also require complex models, and new systems, processes, or internal controls. Consequently, the IPSASB concluded that the 3-year transitional exemption should also be available for revenues accounted for in accordance with IPSAS 47 in order to provide transition relief for first-time adopters.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

...

~~IPSAS 9, Revenue from Exchange Transactions~~ IPSAS 47, Revenue

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with ~~IPSAS 9~~IPSAS 47 (for example, the proceeds of a transaction sale that does not qualify for recognition as revenue), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It shall derecognize the liability and recognize the revenue in its statement of financial performance when the recognition criteria in ~~IPSAS 9~~IPSAS 47 are met.

...

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs.

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
...
IPSAS 9, <i>Revenue from Exchange Transactions</i>	√				↓ To the extent that 3-year relief period was adopted for assets and/or liabilities			
...
IPSAS 11, <i>Construction Contracts</i>	√							
...
IPSAS 23, <i>Revenue from Non-Exchange Transactions</i>			↓ All non-exchange revenue not recognized under previous basis of accounting	↓ All non-exchange revenue recognized under previous basis of accounting	↓ To the extent that 3-year relief period was adopted for assets and/or liabilities			
IPSAS 47, <i>Revenue</i>			√ All revenue not recognized under previous basis of accounting	√ All revenue recognized under previous basis of accounting	√ To the extent that 3-year relief period was adopted for assets and/or liabilities			

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

...

Transitional exemption or provision	Transitional exemptions or provisions that may be applied or elected		
	Transitional exemptions or provisions that have to be applied	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
...	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
...
IPSAS 9: • Relief for recognition and/or measurement of revenue related to adoption of three-year relief period for recognition and/or measurement of financial instruments			√
...
IPSAS 47: • <u>Relief for recognition and/or measurement of revenue related to adoption of three-year relief period for recognition and/or measurement of assets and/or liabilities</u>			√

...

Amendments to IPSAS 35, Consolidated Financial Statements

Paragraph AG13 is amended, and paragraph 79F is added. New text is underlined and deleted text is struck through.

...

Effective Date

...

79F. Paragraph AG13 was amended by IPSAS 47, Revenue, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

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 IPSAS 40, *Public Sector Combinations*

Paragraphs 34, 79, 115, AG58, and AG86 are amended, and paragraph 126H is added. New text is underlined and deleted text is struck through.

...

Accounting for Amalgamations

...

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

...

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

...

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*.

...

The Acquisition Method of Accounting

...

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

...

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

...

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with ~~IPSAS 23~~ IPSAS 47.

...

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 recognized in an acquisition at the higher of:
- (a) The amount that would be recognized in accordance with IPSAS 19; and
 - (b) The amount initially recognized less, if appropriate, the cumulative amortization amount of revenue recognized in accordance with ~~IPSAS 9, Revenue from Exchange Transactions~~ IPSAS 47.

This requirement does not apply to contracts accounted for in accordance with IPSAS 41, *Financial Instruments*.

...

Effective Date

...

- 126H. Paragraphs 34, 79, 115, AG58, and AG86 were amended by IPSAS 47, Revenue, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Application Guidance

...

Accounting for Amalgamations

...

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34)

...

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ IPSAS 47, *Revenue*.

...

Accounting for Acquisitions

...

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

...

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with ~~IPSAS 23~~ 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 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 recognized a liability of CU350 in respect of ~~its performance~~ the unsatisfied portion of its compliance obligation, in accordance with ~~IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*~~ 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 recognize 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 33–34 and AG57–AG58 of IPSAS 40

...

IE176. MF accounts for tax receivable in accordance with ~~IPSAS 23~~IPSAS 47, and would recognize an adjustment for the tax forgiven.

...

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40

IE192. ...

		COA (CU)	COB (CU)
54(h)(i)	Revenue		
	Property taxes	45,213	70,369
	Revenue from exchange transactions <u>compliance obligations in binding arrangements</u>	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 78–79 and AG85–AG87 of IPSAS 40

...

IE250. MF accounts for tax receivable in accordance with ~~IPSAS 23~~IPSAS 47, and would recognize an adjustment for the tax forgiven.

...

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of 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 recognized a liability of CU600 in respect of ~~its performance~~the unsatisfied portion of its compliance

obligation, in accordance with ~~IPSAS 23~~ 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 recognize an asset in respect of the ~~grant transfer~~, but accounted for the full CU800 as an expense.

...

Amendments to 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 156G 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 ~~IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)~~ 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 ~~IPSAS 9, Revenue from Exchange Transactions~~ IPSAS 47, Revenue, and ~~IPSAS 23~~ transactions ~~which give rise to financial instruments~~ for the purposes of recognizing 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 recognized 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 ~~IPSAS 23~~ IPSAS 47.

...

Classification

...

Classification of Financial Liabilities

45. An entity shall classify all financial liabilities as subsequently measured at amortized 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 recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~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 recognized (see paragraph 57) less, when appropriate, the cumulative amount of ~~amortization~~ revenue recognized in accordance with the principles of ~~IPSAS 9~~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 IPSAS 47) if the short-term receivables do not contain a significant financing component (in accordance with IPSAS 47, or when the entity applies the practical expedient in paragraph 126 of 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 IPSAS 9~~IPSAS 47~~ and non-exchange transactions within the scope of IPSAS 23 and that:**
- (i) **Do not contain a significant financing component in accordance with IPSAS 47 (or when the entity applies the practical expedient in accordance with paragraph 126 of IPSAS 47);**
 - (ii) **Contain a significant financing component in accordance with 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) ...

...

Effective Date

...

156G. 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 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

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 ~~IPSAS 9, Revenue from Exchange Transactions~~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 ~~IFRS 4~~ the scope of the relevant international or national accounting standard dealing with insurance contracts if the risk transferred is significant, the issuer applies this Standard. Nevertheless, an entity may elect, under certain circumstances, to treat financial guarantee**

contracts as insurance contracts of financial instruments using IPSAS 28 if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or the relevant international or national accounting standard on insurance contracts to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognize 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 recognized less, when appropriate, the cumulative ~~amortization amount of revenue~~ recognized in accordance with the principles of ~~IPSAS 9~~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 ~~IPSAS 9~~IPSAS 47 in determining when it recognizes 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 recognized simultaneously. Where the asset is a financial asset, it is recognized in accordance with IPSAS 23, and initially measured in accordance with IPSAS 23 and this Standard. A liability that is initially recognized as a result of conditions imposed on the use of an asset is outside the scope of this Standard and is dealt with in IPSAS 23. A right from a revenue transaction that meets the definition of an asset is initially recognized and measured in accordance with IPSAS 47. Similarly, an obligation from a revenue transaction that meets the definition of a liability is initially recognized and measured in accordance with IPSAS 47. After initial recognition, if circumstances indicate that recognition of a liability in accordance with ~~IPSAS 23~~IPSAS 47 is no longer appropriate, an entity considers whether a financial liability should be recognized in accordance with this Standard. Other liabilities that may arise from non-exchange revenue transactions are recognized and measured in accordance with this Standard if they meet the definition of a financial liability in IPSAS 28.~~

...

Recognition and Derecognition

...

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with ~~the relevant~~

~~revenue standard (see IPSAS 9 and IPSAS 23)~~ IPSAS 47. Such transactions may give rise to financial liabilities as defined in 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 recognized 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 recognized 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 derecognized 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 recognized in surplus or deficit ~~on a time proportion basis when (or as) the compliance obligation is satisfied (see IPSAS 9~~ in accordance with the principles of 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 ~~IPSAS 23~~ IPSAS 47.

AG44. Lenders will sometimes waive their right to collect debt owed by a public sector entity, for example, a national 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 ~~IPSAS 23~~ 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 ~~IPSAS 23~~ IPSAS 47. Assets resulting from ~~non-exchange~~

revenue transactions can arise out of both contractual and non-contractual arrangements (see 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 recognized in accordance with ~~IPSAS 23~~ IPSAS 47;
- (b) Initially measured:
 - (i) At ~~fair value~~ the transaction consideration using the principles in ~~IPSAS 23~~ 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 IPSAS 28 and paragraphs ~~42–58~~ AG152–AG153 of ~~IPSAS 23~~ 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 ~~IPSAS 23~~ IPSAS 47.

...

Illustrative Examples are provided in paragraph ~~IG54~~ of ~~IPSAS 23~~ IE296–IE299 of 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 analyze 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 ~~IPSAS 23~~ IPSAS 47. The entity providing the resources shall recognize 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 recognized 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 recognized less, when appropriate, the cumulative amortization amount of revenue recognized in accordance with IPSAS 9, Revenue from Exchange Transactions~~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 recognize 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 recognized, less, when appropriate, the cumulative amortization amount of revenue recognized in accordance with ~~IPSAS 9~~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.

...

Amortized 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 ~~IPSAS 9~~IPSAS 47 include:

...

...

Basis for Conclusions

...

Scope

BC6. Assets and liabilities may arise out of contractual non-exchange revenue transactions. At the time this Standard was developed, ~~The~~ the initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions ~~is~~ was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 ~~does~~ did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC7. When this Standard was being developed, ~~The~~ the IPSASB agreed that where an asset acquired in a non-exchange transaction is a financial asset, an entity:

- Initially ~~recognizes~~ recognized the asset using IPSAS 23; and
- Initially ~~measures~~ measured the asset using IPSAS 23 and, considers the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

As IPSAS 23 ~~does~~ did not prescribe subsequent measurement or derecognition requirements for assets acquired in a non-exchange transaction, this Standard is applied to those assets if they are financial assets.

BC8. For liabilities, the IPSASB agreed, when developing this Standard, that liabilities arising from conditions imposed on a transfer of resources in accordance with IPSAS 23 are initially recognized and initially measured using that IPSAS, as these liabilities usually do not meet the definition of a financial liability at initial recognition (see IPSAS 28). After initial recognition, if circumstances indicate that the liability is a financial liability, an entity assesses if the liability recognized in accordance with IPSAS 23 should be derecognized and a financial liability recognized in accordance with this Standard.

BC9. At the time IPSAS 41 was finalized, ~~t~~The IPSASB agreed that other liabilities that arise from non-exchange revenue transactions, for example, the return of resources based on a restriction on the use of an asset, are recognized and measured in accordance with this Standard if they meet the definition of a financial liability.

Initial Measurement

BC10. When the IPSASB developed this Standard, ~~t~~the IPSASB acknowledged that there is an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 ~~requires~~ required that assets acquired in a non-exchange revenue transaction ~~are~~ were measured initially at fair value. This Standard requires financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC11. At that time, ~~The~~ the IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange

transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

Equity Instruments Arising from Non-Exchange Transactions

BC12. In the public sector, equity instruments are sometimes obtained with minimal cash flow expectations as a way to provide funding to another public sector entity for providing a service. The IPSASB considered the need for additional guidance similar to concessionary loans for such equity instruments acquired at non-market terms. ~~While~~ The IPSASB agreed that there are fundamental differences between the economic substance of such arrangements compared to concessionary loans. The IPSASB also agreed that, when this Standard was developed, the guidance in IPSAS 23 and the Standard sufficiently ~~address~~ addressed the recognition and measurement of such transactions, and additional guidance ~~is~~ was included to provide clarity.

...

Analyzing the Substance of Equity Instruments Arising from Non-Exchange Transactions

BC26. When developing this Standard, ~~The~~ the IPSASB considered that the existing requirements and guidance in IPSAS 28 and IPSAS 23 already appropriately addressed these matters. IPSAS 28 defines an equity instrument and explains how to determine whether a financial instrument is a financial liability or an equity instrument. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, paragraph 28, ~~includes~~ included examples of contributions from owners. Nevertheless, the IPSASB agreed to develop implementation guidance (paragraph G.4) to support constituents in analyzing the substance of financial instruments arising from non-exchange transactions.

...

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 recognized in accordance with ~~IPSAS 23~~ IPSAS 47, Revenue.

IE155. The journal entries to account for the concessionary loan are as follows:

1.	On initial recognition, the entity recognizes 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

~~IPSAS 23~~ IPSAS 47 is considered in recognizing either a liability or revenue for the off-market portion of the loan. Paragraph ~~4E54~~302 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 IPSAS 28 and paragraphs ~~42–58~~AG152–AG153 of ~~IPSAS 23~~ 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.

...

Amendments to IPSAS 43, Leases

Paragraphs 18, 98, 99, 102, and 120 are amended, and paragraph 103D is added. New text is underlined, and deleted text is struck through.

...

Identifying a Lease (see paragraphs AG10–AG34)

...

Lessor

18. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying ~~IFRS 15, Revenue from Contracts with Customers~~IPSAS 47, Revenue.

...

Sale and Leaseback Transactions

...

Assessing Whether the Transfer of the Asset is a Sale

98. An entity shall apply the requirements for determining when a ~~performance compliance~~ obligation is satisfied in ~~IFRS 15~~IPSAS 47, Revenue to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the Asset is a Sale

99. If the transfer of an asset by the seller-lessee satisfies the requirements of ~~IFRS 15~~IPSAS 47, Revenue to be accounted for as a sale of the asset:

...

Transfer of the Asset is not a Sale

102. If the transfer of an asset by the seller-lessee does not satisfy the requirements of ~~IFRS 15~~IPSAS 47, Revenue to be accounted for as a sale of the asset:

...

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 the transfer of the underlying asset satisfies the requirements in ~~IFRS 15~~IPSAS 47, Revenue to be accounted for as a sale.

...

Effective Date

...

103D. Paragraphs 18, 98, 99, 102, and 120 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

...

Basis for Conclusions

...

Cross-Reference to IFRS 15 Revenue from Contracts with Customers

...

BC99. ~~When developing this Standard, the~~ The IPSASB decided to refer to IFRS 15 instead of the relevant national or international accounting standard dealing with revenue from contracts with customers, where appropriate, because it is consistent with the:

- (a) Control-based approach to lessee accounting in IPSAS 43; and
- (b) IFRS 16 reference to IFRS 15 in the corresponding requirements.

BC100. In reaching this decision, the IPSASB noted that these references will be updated when ~~a new IPSAS on Revenue~~ the new IPSAS 47, Revenue is issued.

...

Effective Date

...

BC102. In deciding the effective date, the IPSASB considered that:

...

- (c) It provides sufficient time for the IPSASB to finalize ~~a new IPSAS on Revenue~~ the new IPSAS 47 and other IPSAS under development in the IPSASB's Work Program, which may have consequential amendments to IPSAS 43;

...

BC103. The IPSASB decided to permit the earlier application of IPSAS 43, instead of encouraging it, because, ideally, the Standard should be applied together with ~~the new IPSAS on Revenue~~ the new IPSAS 47 aligned with IFRS 15. ~~However, the principles in IFRS 15 are currently under consideration by the IPSASB.~~

BC104. The IPSASB noted during its development of this Standard that, ~~f~~For those public sector entities that elect to apply IPSAS 43 early, there might be greater complexity in analyzing revenue transactions under different principles: some lease transactions would be accounted for according to the principles in IFRS 15, while the revenue from other non-lease transactions will still be accounted for according to the principles in IPSAS 9, *Revenue from Exchange Transactions*, until the IPSASB publishes a new IPSAS on Revenue. However, cross-referencing to IFRS 15, where appropriate for revenue recognition, provides a temporary solution that allows public sector entities to prepare for the future changes that might be required when the IPSASB completes its Revenue project and issues the new IPSAS 47.

...

Illustrative Examples

...

Sale and Leaseback Transactions (See paragraphs 97–102)

...

Example 24 – Sale and Leaseback Transaction

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. 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 CU120,000 payable 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 for determining when a ~~performance compliance~~ obligation is satisfied in IFRS 15 Revenue from Contracts with Customers ~~IPSAS 47, Revenue~~. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. This example ignores any initial direct costs.

...

Amendments to IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*

...

Implementation Guidance

...

Presenting discontinued operations in the statement of financial performance (paragraph 42)

...

Example 11

...	20X2	20X1
Continuing operations		
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses <u>Other compulsory contributions and levies</u>	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities <u>without a binding arrangement</u>	X	X
<u>Revenue from compliance obligations in a binding arrangement</u>	<u>X</u>	<u>X</u>
Other revenue	X	X
Total Revenue	<u>X</u>	<u>X</u>

...

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraphs 64, 67 and 68 are amended, and paragraph 87A is added. New text is underlined and deleted text is struck through.

...

Derecognition

...

64. 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 IPSAS 9, *Revenue from Exchange Transactions* for recognizing 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 IPSAS 47, *Revenue*. ~~and~~ IPSAS 43 applies to disposal by a sale and leaseback.

...

67. ~~The amount of consideration receivable on disposal to be included in the surplus or deficit arising from the derecognition of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of 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 IPSAS 47.~~
68. However, an entity that, in the course of its 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 recognized as revenue in accordance with ~~IPSAS 9~~ IPSAS 47. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

...

Effective Date

...

- 87A. Paragraphs 64, 67, and 68 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

...

Basis for Conclusions

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

Introduction

- BC1. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts*, respectively, which were both issued by the International Accounting Standards Board (IASB).
- BC2. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:
- (a) Difficulty in making the distinction between exchange and non-exchange transactions;
 - (b) Difficulty in making the distinction between a condition and a restriction;
 - (c) Lack of guidance on multi-year funding arrangements;
 - (d) Lack of guidance on taxation received in advance of the period in which it is intended to be used;
 - (e) Lack of guidance on accounting for capital grants; and
 - (f) Lack of guidance on accounting for services in-kind.
- BC3. In May 2014, the IASB published the final version of IFRS 15, *Revenue from Contracts with Customers*, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.
- BC4. In 2015, the IPSASB commenced work on a project to update IPSAS that dealt with accounting for revenue as part of the IPSASB's alignment program which aims to align IPSAS with IFRS® Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*. In addition to potential alignment with IFRS 15, the CP also gave the IPSASB an opportunity to re-evaluate and address some of the application issues with the guidance for non-exchange revenue transactions in IPSAS 23. In particular, the IPSASB considered the question of whether accounting approaches based on whether a revenue transaction is with or without performance obligations are more appropriate than distinguishing between exchange and non-exchange transactions. Based on this new thinking, the CP classified public sector revenue transactions into the following categories:

- (a) Transactions with no performance obligations or stipulations. Under the current framework in IPSAS 23⁸, revenue transactions with stipulations involved the transfer of assets to a resource recipient with the expectation and/or understanding that they will be used in a particular way and, therefore, that the resource recipient entity will act or perform in a particular way;
 - (b) Transactions with stipulations, as described in IPSAS 23, that do not meet all the requirements of IFRS 15; and
 - (c) Transactions that meet all the requirements of IFRS 15 that involve the transfer of promised goods or services to customers and arise from a contract with a customer which establishes performance obligations.
- BC5. The majority of CP respondents agreed that there are different types of revenues in the public sector, and supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of stipulations, which could be in the form of restrictions or conditions, in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice.

Development of Exposure Draft (ED) 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations

- BC6. Based on responses to the CP and subsequent discussions, the IPSASB decided to move away from the exchange/non-exchange distinction and develop accounting approaches based on whether the transaction is with or without performance obligations.
- BC7. The accounting approaches were presented in two revenue Exposure Drafts (EDs), ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*. The issuance of two separate EDs enabled the IPSASB to explicitly demonstrate IFRS alignment and maintain the existing allocation of guidance for different revenue transaction types:
- (a) ED 70 presented guidance for exchange-type transactions, akin to those in the private sector, and is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. ED 70 would replace IPSAS 9 and IPSAS 11, which were principally based on IAS 18 and IAS 11 respectively; and
 - (b) ED 71 presented guidance for non-exchange-type transactions, which are the majority of transactions in the public sector. ED 71 would replace IPSAS 23.
- BC8. In developing the proposed Standards, the IPSASB:
- (a) Considered the guidance on revenue in the *Government Finance Statistics Manual 2014 (GFSM 2014)* with the aim of avoiding unnecessary differences;

⁸ IPSAS 23 included the concept of stipulations, which are terms in laws or regulations, or a binding arrangement, that are imposed on the use of a transferred asset. Stipulations may be in the form of conditions (stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be (1) consumed by the recipient as specified, or (2) returned to the transferor), or restrictions (stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified).

- (b) Considered guidance developed by national standard setters and bodies with oversight responsibilities for public sector entities in developing additional examples that illustrated the public sector environment;
- (c) Considered the aspects of IPSAS 9 and IPSAS 11 that had been developed specifically to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard;
- (d) Made changes to aspects of IPSAS 23 to address the concerns noted by constituents⁹;
- (e) Applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development process, the IPSASB debated a number of issues and whether departure was justified; and
- (f) Agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSAS and made the following modifications:
 - (i) Changes to the definitions and terminology in IFRS 15 to ensure consistency with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework), consistency with definitions and terminology in existing IPSAS, and to reflect the public sector;
 - (ii) Addition of application guidance on public sector-specific issues or issues which may be more prevalent in the public sector;
 - (iii) “Amendments to Other Standards” in IFRS 15 were replaced with “Amendments to Other IPSAS” to reflect IPSAS literature. Where applicable, references to other specific IFRS Standards were also amended to reflect references to the corresponding IPSAS;
 - (iv) Deletion of illustrative examples which had limited or no applicability to the public sector; and
 - (v) Modification of IFRS 15 examples to reflect the public sector context, as well as the addition of public sector-specific examples to assist with the application of ED 70.

BC9. In February 2020, the IPSASB published ED 70 and ED 71, together with ED 72, *Transfer Expenses*. The three exposure drafts were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 70 and ED 71

BC10. The IPSASB received a broad and diverse set of comment letters in response to ED 70, ED 71, and ED 72, respectively. During its review of ED responses, the IPSASB noted that, overall, the comments did not point to substantial concerns about the revenue accounting principles; rather, the responses generally encouraged clarifications of and additional guidance for the accounting principles, and further consideration on the structure and flow of guidance, to support application in practice.

⁹ As a result, Basis for Conclusions paragraphs from IPSAS 23 that relate to retained IPSAS 23 text have been incorporated.

- BC11. The IPSASB also noted that constituents continued to support that there are different types of revenues in the public sector, and different transactions may warrant separate accounting principles. The IPSASB considered feedback from the CP and ED processes together and acknowledged that, while the exchange/non-exchange distinction is considered difficult to apply in practice for the purposes of classifying and accounting for revenue, the distinction still exists as an underlying economic concept. Put differently, while the IPSASB decided to move away from using exchange/non-exchange as defined terms to classify revenue, it remains an appropriate concept to describe the economic substance of transactions in the public sector.
- BC12. Some ED respondents noted that it was difficult to determine the applicable ED for their revenue transactions, and sought clarity on the interrelation between ED 70 and ED 71, and the application of the proposed standards in practice. Some of this confusion was attributed to the distinction between performance obligations and present obligations, which are in the scope of ED 70 or ED 71, respectively.

Discussion with the IPSASB Consultative Advisory Group (CAG)

- BC13. The IPSASB consulted the CAG at its December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 70 and ED 71

- BC14. In light of the responses to ED 70 and ED 71, the IPSASB decided to revisit its decisions on the proposed structure of revenue guidance and how it can better clarify the proposed accounting principles and related disclosure requirements for revenue transactions in the public sector. Key changes include:
- (a) Retaining binding arrangement as a fundamental concept for revenue accounting, which dictates the applicable accounting model (paragraphs BC15–BC17);
 - (b) Presenting accounting guidance for revenue transactions in a single IPSAS, to more clearly communicate the prevalence of revenue types in the public sector and the fundamental concepts for revenue accounting (paragraphs BC18–BC19); and
 - (c) Using a single concept, compliance obligation, for an entity's legally binding obligation arising from a binding arrangement (paragraphs BC20–BC30).

The Concept of a Binding Arrangement

- BC15. The majority of respondents to ED 70 and ED 71 supported the use and concept of binding arrangements in the public sector. Considering constituent comments, the IPSASB also noted that while revenue without performance obligations and revenue with performance obligations differ in economic substance, the latter is expected to be a very small subset of public sector transactions and the existence of a binding arrangement is of greater importance in revenue accounting. Thus, the IPSASB decided to retain the concept of a binding arrangement as a fundamental concept for revenue accounting.
- BC16. The IPSASB also confirmed that enforceability is an integral component of a binding arrangement, and the specific details within binding arrangements would clearly specify each party's rights and obligations (i.e., what each party is held accountable to satisfy, and how they will be held

accountable). The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of transactions with binding arrangements compared to transactions without binding arrangements. The IPSASB also clarified that enforceability can arise from various mechanisms, as 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, by imposing consequences on parties that do not satisfy their obligations.

BC17. The focus on assessing the ability to enforce a binding arrangement is integral for the overall goal of better public financial management. From the broader public financial management perspective, the purpose and intention of enforceable transactions, such as binding arrangements, is to allow the parties in the arrangement to achieve specific objectives. The ability to enforce these arrangements ensures that an entity is held accountable and is able to hold other engaged parties accountable, thereby facilitating strong public financial management. Appropriate reporting and disclosure of information related to these arrangements enables public sector entities to be transparent to their constituents.

One Revenue IPSAS

BC18. Based on its review of constituent concerns, discussions on key revenue accounting concepts and principles, and subsequent analysis of presentation options, the IPSASB decided to restructure and present the accounting guidance, previously proposed in ED 70 and ED 71, as a single standard that:

- (a) Is titled “*Revenue*”, with clear structure and references, which presents a single source of guidance for all public sector revenues;
- (b) Requires an entity to consider up front whether the transaction is without or with a binding arrangement, based on its conclusion in BC15; and
- (c) Has separate guidance for revenue without binding arrangements, and revenue with binding arrangements.

BC19. The IPSASB concluded that this revised structure and presentation would better reflect the prevalence of public sector revenues, with guidance related to the majority of public sector revenues presented first, and overall be more appropriate from a public sector perspective.

Compliance Obligation

BC20. The IPSASB noted that most respondents to ED 70 and ED 71 acknowledged that there are separate types of revenue in the public sector and generally agreed with the distinction between “performance obligations”, as defined in ED 70, and “present obligations”, as described in ED 71. However, some ED respondents indicated that the distinction is not clear or is difficult to apply in practice, and as a consequence, it was unclear which proposed standard and set of principles would apply to a specific transaction.

BC21. As a result of these comments, the IPSASB:

- (a) Reflected on the similarities and differences between “present obligations” as proposed in ED 71 and “performance obligations” as proposed in ED 70;

- (b) Considered whether the differences warranted different accounting principles for revenue with present obligations compared with revenue with performance obligations; and
- (c) Clarified the proposed guidance to better explain the concepts in a principled manner.

Similarities and Differences

BC22. During its review of comments from respondents, the IPSASB acknowledged that present obligations and performance obligations both:

- (a) Arise from transactions with binding arrangements, and thus are legally binding obligations (i.e., enforceable through legal or equivalent means);
- (b) Are described with sufficient specificity in the binding arrangement in order to enable each party in the binding arrangement to hold the other party or parties accountable to satisfy their respective obligations in a specified manner, in compliance with the terms and conditions of that binding arrangement; and
- (c) Are units of account to determine distinct components in a binding arrangement, which are used as mechanisms to recognize and measure revenue as an entity satisfies its obligations in that binding arrangement.

BC23. Reflecting on the differences, the IPSASB clarified that the notion of a present obligation was intended to reflect non-exchange type public sector transactions arising from binding arrangements previously covered by IPSAS 23, whereas a performance obligation was intended to reflect exchange-type public sector transactions previously covered by IPSAS 9 and IPSAS 11 (and comparable to commercial transactions in the private sector, in scope of IFRS 15). Consistent with its decision to acknowledge the economic substance of these transactions, but to move away from using exchange and non-exchange to classify revenue, the IPSASB further considered how to better distinguish the two types of obligations in a binding arrangement.

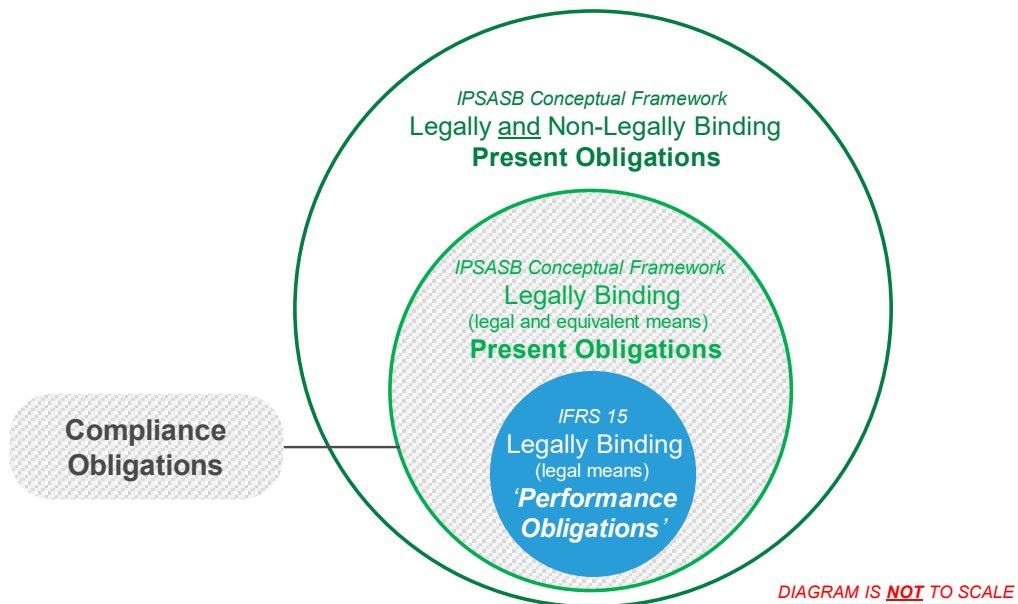
BC24. A performance obligation as presented in ED 70 is an entity's obligation that requires a transfer to an external party (i.e., from the entity back to the transfer provider (purchaser) or to an identified third-party beneficiary). The outputs from the entity's use of resources in a performance obligation as presented in ED 70 are transferred out of the entity in the form of distinct goods or services to another party. This would not capture public sector revenue transactions, like capital transfers, where the promise to use resources in a specified manner, on their own or together with other resources, results in using resources for specific goods or services internally. A legally binding obligation which requires a transfer out of the entity to an external party generally requires greater specificity and clearly identifiable actions for the entity to perform, thereby providing more objective and potentially more specific identification, recognition, and measurement of revenue.

Impact on Accounting Principles

BC25. The IPSASB noted that, while there are identifiable differences between these two types of revenue and the party receiving the distinct goods or services from the entity's satisfaction of its obligations in a binding arrangement may differ, the underlying concept for present obligations and performance obligations are the same: both require the entity to use resources in a specified manner. Of significance is the enforceability of the binding arrangement from which the revenue arises, as this enforceability informs the recognition and measurement accounting principles to appropriately reflect the economic substance of revenue from binding arrangements. As such, the key accounting principles are consistent for both types of obligations in a binding arrangement.

Presenting Revised Guidance

- BC26. The IPSASB’s conclusion that the performance obligations in ED 70 are a subset of present obligations in ED 71 that comprise a minority of public sector revenues, and that key accounting principles are consistent for both types of obligations, were contributing factors to its decision to combine revenue guidance into a single IPSAS.
- BC27. When considering how to clarify accounting guidance, the IPSASB noted that the concept of a “present obligation” in the revenue context is narrower than in the Conceptual Framework. A present obligation is a unit of account in revenue accounting, and is a legally binding obligation in a binding arrangement to use resources in compliance with the terms of the binding arrangement. Present obligations in the Conceptual Framework are legally or non-legally binding obligations, and are used more generally to describe an entity’s obligations. A term other than “present obligation” would more clearly describe and define the concept for revenue accounting purposes.
- BC28. Since performance obligations in ED 70 are a subset of present obligations, and both represent the notion of an enforceable promise or requirement arising from a transaction with a binding arrangement, the IPSASB decided to adopt the new term “compliance obligation” to describe all obligations arising from revenue transactions with binding arrangements. This notion of compliance is in relation to compliance with the terms and conditions in the entity’s binding arrangement. This term and concept would encompass performance obligations (as presented in ED 70 and in alignment with IFRS 15, to capture revenues from transactions that transfer distinct goods or services to an external party) and present obligations (as presented in ED 71, and consistent with legally binding present obligations in the Conceptual Framework, to also capture revenues from public sector transactions that do not transfer distinct goods or services to an external party). The following diagram illustrates the relationship between “compliance obligation” and the previously used terms:



- BC29. The IPSASB provided further guidance to highlight any additional considerations for the entity in applying the accounting principles to compliance obligations which require a transfer of specific

distinct goods or services to an external party. Such compliance obligations to transfer goods or services to an external party generally entail a clear discharge of an entity's obligation in the binding arrangement. These additional considerations are intended to help an entity account for the deferral and recognition of revenue to better reflect the nature of such obligations.

- BC30. The IPSASB's decision to have a single concept for obligations arising from revenue transactions with binding arrangements, along with the decision to present revenue guidance in a single IPSAS, also prompted the removal of redundant guidance proposed in the EDs related to scope considerations and measurement of transactions with components under the two proposed revenue standards.

Scope (paragraph 3)

Modification of IFRS 15 for Applicability to the Public Sector

- BC31. The IPSASB modified the requirements of IFRS 15 to address public sector-specific transactions. This included using the concept of a binding arrangement, which is broader than a contract, in IPSAS 47 to allow for jurisdictions where government and public sector entities cannot enter into legal contracts but do enter into binding arrangements which are in substance the same as contracts.
- BC32. The IPSASB modified enforceability to include mechanisms that are outside the legal system that are equivalent to legal means. This change was made because some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered "contracts". The IPSASB also noted that legal or equivalent means is consistent with "legal obligation" as described in Chapter 5 of the Conceptual Framework, and is not a "non-legally binding obligation".
- BC33. Public sector transactions may involve three parties: the resource provider, which provides the consideration; the entity, which receives the consideration and is responsible for using or transferring goods or services; and the third-party beneficiary, which can be an entity, individual or household, receiving those goods or services. While the IASB's educational materials refer to such three-party arrangements, they are not explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in IPSAS 47, as three-party transactions are expected to be much more prevalent in the public sector.

Modification of IFRS 15 Illustrative Examples

- BC34. Illustrative Examples are non-authoritative guidance which illustrate accounting principles using general fact patterns prevalent globally amongst public sector entities. The IPSASB adapted the Illustrative Examples from IFRS 15 using the following approach for ED 70 and ED 71:
- (a) Where the underlying concepts illustrated by an example is applicable to the public sector, the example was modified to incorporate realistic fact patterns which could apply to public sector entities such as governments and intergovernmental organizations;
 - (b) Where the underlying concepts in an example only had limited or no applicability to the public sector, the example was removed. This applied to examples involving price concessions granted by suppliers to distributors to preserve the supply chain relationship, additional goods

or services in the telecommunications sector, “slotting fees” paid by a supplier to a retailer, warranties, franchise rights, and costs incurred in a competitive bidding scenario; and

- (c) Developed new public sector-specific examples to illustrate the additional application guidance on scope, three-party arrangements, enforceability, and the additional disclosure requirements.
- BC35. After addressing comments from ED respondents, the IPSASB reviewed the proposed Illustrative Examples and:
- (a) Retained examples that use general case facts to illustrate principles which remain relevant in the Standard’s accounting models and application of complex principles to transactions that are both relevant and prevalent in the public sector. The retained examples were revised as necessary to better reflect the accounting principles in IPSAS 47;
 - (b) Removed examples that did not meet the retention criteria in BC35(a); and
 - (c) Added examples, using general fact patterns, to illustrate the application of accounting principles for capital transfers.
- BC36. The IPSASB acknowledged that while the Illustrative Examples are not authoritative, an entity applying IPSAS 47 may find examples dealing with commercial transactions to be helpful if it is a party to such transactions. While commercial transactions may be relevant (i.e., may occur) in the public sector, the IPSASB expects such situations to be less prevalent (i.e., uncommon and thus with limited applicability) and decided to remove examples of relevant but not prevalent transactions to the public sector. The IPSASB noted that if a public sector entity is a party to commercial transactions, it may refer to IFRS 15 for additional Illustrative Examples of how an entity might apply the requirements of the Standard.

Non-monetary Exchanges between Entities in the Same Line of Business

- BC37. In the discussion of non-monetary exchanges in paragraph 3(h) of IPSAS 47, the IPSASB replaced the example of non-monetary exchanges of oil between entities in the same line of business to facilitate sales to potential customers used in IFRS 15 with the exchange of electricity, because it is more relevant to the public sector.

Highlighting the Relationship Between IPSAS 47, Revenue, and IPSAS 48, Transfer Expenses

- BC38. The IPSASB considered clarifying the scope and interaction between IPSAS 47 and IPSAS 48, *Transfer Expenses*, by defining the term “Transfer Revenue” in order to mirror the definition of “Transfer Expense” in IPSAS 48. Specifically, the IPSASB considered defining “Transfer Revenue” as a transaction, other than taxes, in which an entity receives a good, service, or other asset from another entity without directly providing any good, service, or other asset in return.
- BC39. While the IPSASB acknowledged that the definition was accurate and that it would be conceptually sound to highlight the mirroring relationship between transfer revenue and transfer expenses, the IPSASB ultimately decided not to introduce this term as a formal definition for the following reasons:
- (a) A number of members were concerned that introducing a new definition relating to revenue may confuse constituents; and

- (b) Transfer revenue would have been a subset of revenue in IPSAS 47. Separately defining this term when their recognition and measurement would have been the same as other types of revenue seemed to add an unnecessary level of complexity and duplication of guidance.

Onerous Contracts

BC40. The IPSASB considered if IPSAS 47 should include explicit guidance for binding arrangements that become onerous and noted that IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, which was developed based on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to onerous contracts. While this guidance refers to “contracts”, the IPSASB noted that IPSAS 19 would still be applicable for binding arrangements with compliance obligations that transfer goods or services to another party. Furthermore, binding arrangements with compliance obligations to use resources for goods or services internally would not meet the definition of an onerous contract because there are no exchange of assets or services. Therefore, the IPSASB concluded that the scope exclusion in paragraph 3 of IPSAS 47 and paragraph 1(c) of IPSAS 19 are sufficient, and incorporated a specific reference to IPSAS 19 in paragraph 79.

Compulsory Contributions and Levies to Social Security and Other Schemes

- BC41. There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents commented that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.
- BC42. The IPSASB concluded that such contributions are revenue transactions without binding arrangements, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this Standard.
- BC43. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this Standard.

Definitions (paragraphs 4–8)

General Alignment with Public Sector Terminology

- BC44. In adapting IFRS 15 for use in the public sector, the IPSASB modified the following terms in IPSAS 47 to better align with terminology used in the public sector:
- (a) All the references to “sell” or “sold” were replaced with the terms “provide” and “provided”, respectively. In addition to general alignment with public sector terminology, this change also accommodates the fact that in three-party revenue arrangements, goods or services are provided, rather than sold, by an entity to a third-party beneficiary;

- (b) “Stand-alone selling price” was replaced with “stand-alone value”;
- (c) “Customary business practices” was replaced with an entity’s “customary practices”;
- (d) “Industry” was replaced with “sector”; and
- (e) Editorial changes were made to the definition of “transaction consideration”.

Other changes in terminology and new definitions were added for public sector-specific reasons. These changes and additions are explained in paragraphs BC45–BC62.

Binding Arrangements

- BC45. The IPSASB replaced all references to “contracts” in IFRS 15 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The IPSASB agreed that binding arrangements, for the purpose of IPSAS 47, should encompass rights that arise from legislative or executive authority, cabinet or ministerial directives. For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and enforceable obligations on the parties to the arrangement. To assist with the expanded concept of binding arrangements, Application Guidance was added to IPSAS 47 in paragraphs AG10–AG31. As the concept of a contract may still be applicable in the public sector, the IPSASB specified in the binding arrangement definition that a contract is a type of binding arrangement. The definition of “contract” is in IPSAS 43, *Leases*, which was approved prior to IPSAS 47.
- BC46. Considering constituent comments from ED respondents on the concept and definition of a binding arrangement, the IPSASB:
- (a) Acknowledged that multi-party arrangements, where more than two parties in the arrangement each have their own enforceable rights and enforceable obligations, are common in the public sector. The IPSASB revised the definition of a binding arrangement to better reflect that at least two parties must each have their own respective enforceable rights and enforceable obligations, thereby conferring at least two-way enforceability; and
 - (b) Reconfirmed its decision that a binding arrangement includes both rights and obligations, and each party’s enforceable right and enforceable obligation are interdependent and inseparable.
- BC47. The IPSASB concluded that the use and definition of the term “binding arrangement” in IPSAS 47 is conceptually consistent with existing IPSAS and the difference in wording is intentional for the purposes of IPSAS 47. The definition was retained, with minor wording revisions to clarify the concept and application in IPSAS 47.
- BC48. Since a binding arrangement is, by definition, enforceable, and includes both rights and obligations for the parties, the IPSASB concluded that all binding arrangements will include at least one compliance obligation. In other words, a binding arrangement always includes at least one compliance obligation because the enforceability of binding arrangements provides each party with the ability to enforce obligations agreed upon in that binding arrangement.

Unenforceable Transactions

- BC49. The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needed to be enforceable by the resource provider. For example, taxpayers do not normally have enforceable rights, and the implied requirements may give rise to enforceable obligations of the resource recipient.
- BC50. The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.

Appropriations

- BC51. The IPSASB noted that, in some jurisdictions, a revenue transaction might be made subject to authorization of an appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the entity has no enforceable claim and should not recognize an asset prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation has substance.

Compliance Obligation

- BC52. As outlined in BC26–BC28, the IPSASB decided to adopt the new term “compliance obligation” to describe all obligations arising from revenue transactions with binding arrangements. The definition of “compliance obligation” reflects that an entity’s obligation in a binding arrangement requires the entity to either use resources internally for a distinct good or service or transfer a distinct good or service to an external party (purchaser or third-party beneficiary). This definition is intended to encapsulate the concept as presented in IFRS 15 (and proposed in ED 70 as “performance obligations”), but revised to better capture public sector transactions arising from binding arrangements where an entity does not transfer distinct goods or services to an external party (proposed in ED 71 as “present obligations”).

Binding Arrangement Asset and Binding Arrangement Liability

- BC53. As a consequence of replacing all references to “contract” with references to “binding arrangement”, the IPSASB also replaced the terms “contract asset” and “contract liability” with “binding arrangement asset” and “binding arrangement liability”, respectively.

Resource Provider

- BC54. To more clearly describe the other party in a revenue transaction, the IPSASB introduced the term “resource provider” as part of its decision to present guidance for all public sector revenue transactions in a single standard. This party provides a resource, which encompasses various goods, services, and assets, including in the form of transfers, to the entity applying IPSAS 47. A resource provider may or may not be the party receiving goods or services from the reporting entity.

BC55. This Standard refers to the party providing resources in a revenue transaction as the “resource provider”, while IPSAS 48 refers to the party providing resources in a transfer expense transaction as the “transfer provider”. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.

Purchaser and Third-Party Beneficiary

BC56. The IPSASB replaced the term “customer” with “purchaser”, because the use of the term “purchaser” is widespread in IPSAS literature and is a broader term more suited to transactions involving the transfer of goods or services to either the purchaser or agreed third-party beneficiary. The IPSASB revised the definition of a “purchaser” to clarify that it is a resource provider that receives goods or services from the entity. As the term “customer” may still be applicable in certain circumstances in the public sector, the IPSASB also retained the definition of a customer but clarified that a customer is a type of purchaser.

BC57. The IPSASB added the term “third-party beneficiary” following the term “purchaser”, where appropriate, to describe the transfer of goods or services in three-party arrangements, which are common in the public sector. The term “third-party beneficiary” was defined so that its meaning can be consistently applied to IPSAS 47 as well as IPSAS 48.

Revenue and Customer

BC58. The IASB’s definition of revenue refers to income arising in the course of an entity’s ordinary activities, and income encompasses both revenues and gains. The IASB’s definition of “customer” also refers to obtaining goods or services that are an output of the entity’s ordinary activities. To be consistent with IPSAS 1, the IPSASB decided not to adopt the IASB’s definition of revenue. As a result, IPSAS 47 uses the definition of “revenue” in IPSAS 1 and does not refer to “income arising in the course of an entity’s ordinary activities”.

BC59. As the IASB’s definition of “revenue”, which refers to “ordinary activities”, was not adopted, the IPSASB replaced the references to “ordinary activities” in the definition of “customer” with references to “activities” to ensure consistency with the Conceptual Framework. The current IPSAS literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

BC60. The IPSASB decided to replace the term “commercial substance” with “economic substance” which encompasses commercial substance. The public sector entities which apply IPSAS generally do not have commercial objectives. Therefore, the term “commercial substance” was considered to be inappropriate. As a result of this change, the IPSASB added application guidance on economic substance in paragraphs AG32–AG34.

Combining Binding Arrangements

BC61. When considering the criteria for when an entity shall combine two or more binding arrangements, the IPSASB considered replacing the term “commercial objective”, with “economic objective”, because the term “commercial objective” refers to the objective to make a profit, whereas the primary objective of most public sector entities is to deliver services to the public. However, the IPSASB decided to simply replace the term “commercial objective” with “objective” because the

term “economic objective” could have a different connotation for the public sector than the objective of delivering services to the public.

Economic Benefits and Service Potential from Distinct Goods or Services

BC62. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the capability to generate economic benefits. The IPSASB acknowledged that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows. Therefore, the IPSASB replaced the term “benefits” with “economic benefits or service potential” in IPSAS 47.

Retained Terminology and Definitions

BC63. The IPSASB considered whether any modification was required to the following terms and definitions but ultimately decided to retain them without modification, as there was no public sector-specific reason to modify them:

- (a) Goods or services;
- (b) Consideration;
- (c) Exchange;
- (d) Distinct; and
- (e) Fair value.

Identifying the Revenue Transaction (paragraphs 9–16)

BC64. In response to constituent comments in response to the EDs, outlined in paragraphs BC14–BC17, the IPSASB restructured the guidance in IPSAS 47 to require an entity to consider up front whether the transaction is without or with a binding arrangement. The enforceability of a binding arrangement necessitates different accounting principles in order to capture the nature and risks of such transactions (in comparison with transactions without binding arrangements). The IPSASB also added Implementation Guidance to support the accounting principles presented in the authoritative text, as this is an important and complex area of the revenue guidance.

Revenue from Transactions without Binding Arrangements (paragraphs 17–55)

BC65. The definition of a binding arrangement specifically requires each party in the arrangement to have both an enforceable right and enforceable obligation. If one of these components is not present in the arrangement, then it is not a binding arrangement. This means that various transactions are to be accounted for as revenue from transactions without binding arrangements, where the entity has:

- (a) An enforceable right, and an unenforceable obligation;
- (b) An unenforceable right, and an enforceable obligation; or
- (c) An unenforceable right and an unenforceable obligation.

BC66. The IPSASB has included more explicit guidance to prompt an entity to consider whether any of its rights or obligations in the transaction may meet the definition of an asset or liability, respectively,

in accordance with the Conceptual Framework. This additional guidance is consistent with existing accounting principles, and is included to better balance the accounting model for revenue without binding arrangements and overall ensures that the two accounting models are comprehensive and stand-alone for users of this Standard.

- BC67. This Standard also does not establish different recognition requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that, while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify a different recognition point.

Entity Bank Accounts

- BC68. This Standard assumes the requirement that all money deposited in a bank account of an entity satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity. The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The Standard also requires the recognition of a liability in respect of any amount the entity has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Assets and Liabilities

- BC69. This Standard requires assets acquired in revenue transactions to be initially measured at their transaction consideration as at the acquisition date. The IPSASB was of the view that this is appropriate to reflect the substance of the transaction and its consequences for the entity. The cost of acquisition is usually a measure of the fair value of the asset acquired. However, the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. Transaction consideration most faithfully represents the actual value the entity accrues as a result of the transaction. Initial measurement of non-monetary assets acquired at their transaction consideration, which is the current value for non-monetary assets, is consistent with the approach taken in IPSAS 16, *Investment Property* for assets acquired at no cost or for a nominal cost. The IPSASB made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 to fully align those IPSAS with the requirements of this Standard.
- BC70. As part of the development of IPSAS 46, *Measurement*, the IPSASB decided that, in the case of non-monetary assets in the scope of IPSAS 45, *Property, Plant, and Equipment*, held for its operational capacity, deemed cost should be clarified to include current operational value. The IPSASB agreed to require the use of current operational value on initial measurement where the transaction price does not faithfully reflect the substance of the transaction for property, plant, and equipment held for their operational capacity. While fair value continues to faithfully represent the value to the public sector entity of property, plant, and equipment held for its financial capacity, current operational value faithfully represents the value of property, plant, and equipment held for its operational capacity.
- BC71. This Standard requires that where an entity recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB was also cognizant of the amendments proposed for IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

BC72. This Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts of Taxes

BC73. This Standard requires an entity that receives resources in advance of the taxable event, or of an arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event does not occur, or the arrangement does not become enforceable, the entity may need to return part or all of the resources. One common view is that, where resources are received in advance of the taxable event, an entity should only recognize a liability where it considers it probable that there will be a subsequent transfer of resources. The IPSASB supported the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to an arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

BC74. This Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB concluded that this treatment was consistent with the principles established in this Standard.

BC75. The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.¹⁰ The IPSASB noted that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1 requirement not to offset items of revenue and expense.

¹⁰ OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

The Tax Gap

- BC76. For some taxes, government entities will be aware that the amount it is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, non-compliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.
- BC77. The IPSASB concluded that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect to the tax gap.

Revenue from Transactions with Binding Arrangements (paragraphs 56–161)

Accounting for the Binding Arrangement

- BC78. The IPSASB noted that the title and structure of Step 1 of the five-step model proposed in ED 70, previously titled “Identifying the Binding Arrangement”, caused confusion for some constituents. The criteria in paragraph 56 are not intended to identify whether an arrangement is a binding arrangement; an entity should identify a binding arrangement by assessing whether an arrangement meets the definition of a binding arrangement. Rather, an entity is to consider the criteria in paragraph 56 when determining if revenue from a binding arrangement should be accounted for using the five-step accounting model in IPSAS 47. The IPSASB decided to reorder the authoritative guidance on binding arrangements and clarify when the five-step model should be considered in accounting for revenue transactions arising from binding arrangements.

Probability of Collection of Consideration to which an Entity is Entitled (Paragraph 56(e))

- BC79. Paragraph 56(e) is part of the criteria that must be met before an entity can apply the five-step accounting model in IPSAS 47. Paragraph 56(e) requires the collection of consideration to which an entity is entitled to be probable.
- BC80. One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because:
- (a) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and
 - (b) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration.
- BC81. The IPSASB acknowledged that the probability criterion for certain binding arrangements with resource providers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of the resource provider’s ability or intention to pay. As a result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.

- BC82. When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph 56(e) without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 58 of IPSAS 47 are met.
- BC83. The IPSASB decided to retain paragraph 56(e) because:
- (a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 4 of IPSAS 47, paragraph 7 of IPSAS 1, and paragraph 5.29 of the Conceptual Framework; and
 - (b) The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.
- BC84. The IPSASB acknowledged that arrangements into which an entity is compelled to enter, where the collectability of the consideration is in question, could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession as described in paragraph AG37 (see paragraph BC110).
- BC85. To assist with the application of paragraph 56(e), the IPSASB added paragraph AG37, which states that when an entity is providing goods or services and accepts a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction consideration may meet the collectability criterion in paragraph 56(e) and the entity would apply the five-step accounting model to the binding arrangement. The IPSASB also enhanced paragraph AG37 to address comments from ED respondents on how an entity should consider implicit price concessions in the assessment of collectability, and use its best estimate of risks associated with the resource provider at the inception of the binding arrangement.

Recognition of Consideration Received as Revenue when the Criteria in Paragraph 56 are not Met (Amendment of Paragraph 58)

- BC86. In IFRS 15, if a transaction does not meet all of the criteria for revenue recognition using the five-step accounting model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:
- (a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
 - (b) The contract has been terminated and the consideration received from the customer is non-refundable.
- BC87. In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized,

even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB clarified in paragraph 58(a) of IPSAS 47 that an entity shall recognize the consideration received as revenue when the entity has fully satisfied the compliance obligation related to the consideration received, and the consideration received is non-refundable.

Overall Impact from the Application of Paragraphs 56(e), 58 and AG37

BC88. The IPSASB noted that the application of paragraphs 56(e), 58 and AG37 would lead to the following possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of this Standard are applied:

- (a) Criterion 56(e) is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step accounting model and no specific disclosures regarding compelled transactions are required. As required by paragraph 57, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.
- (b) Criterion 56(e) is met, but only after the transaction consideration has been reduced for the implicit price concession as noted in paragraph AG37 – In this scenario, the binding arrangement will be accounted for using the five-step accounting model but at the reduced transaction consideration. Specific disclosures regarding compelled transactions will be required by paragraph 171 (see paragraph BC110 below). Similar to the scenario in paragraph BC88(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by paragraph 57 to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.
- (c) Criterion 56(e) is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernable pattern of collection based on past history. In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Any consideration received is subject to the revenue recognition criteria in paragraphs 58 and 86. Specific disclosures regarding compelled transactions will be required by paragraph 171.
- (d) Criterion 56(e) is not met, and no consideration has been collected – In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Specific disclosures regarding compelled transactions will be required by paragraph 171.

Based on the above, the IPSASB was satisfied that paragraphs 58, 171 and AG37 address the concerns discussed in paragraphs BC84, BC87 and BC110.

Breach of the Terms and Conditions of a Binding Arrangement

BC89. The IPSASB considered the accounting consequences arising from the breach of the terms and conditions of a binding arrangement. The IPSASB concluded that the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*, should be considered to determine whether the breach resulted in an error as defined in IPSAS 3. Where the circumstances

of the breach are such that the guidance in IPSAS 3 is not applicable, guidance included in this Standard should be applied.

Identifying Compliance Obligations in a Binding Arrangement

BC90. Further to its discussions outlined in paragraphs BC20–BC29, the IPSASB confirmed that a binding arrangement has at least one compliance obligation, and each compliance obligation is a unit of account to determine a distinct component within the binding arrangement and is a mechanism for the recognition and measurement of revenue. Since an entity's binding arrangement may have multiple compliance obligations, the IPSASB decided to revise existing guidance to help entities identify and account for each of its obligations in a binding arrangement separately, in accordance with the nature of each distinct obligation, and added Implementation Guidance to support the principles presented in the authoritative text. The IPSASB also confirmed that principles in this Standard are consistent with the Unit of Account guidance proposed in Chapter 5, *Elements in Financial Statements* of the *Conceptual Framework*.

Existence and Recognition of a Liability

BC91. Some respondents to ED 71 provided comments related to the existence of a liability in a binding arrangement: for example, what gives rise to a liability in a binding arrangement, whether and when a liability is recognized, and if that liability only arises when there is a return (i.e., repayment) obligation, as previously presented in IPSAS 23. The IPSASB considered these comments in conjunction with the guidance proposed in Chapter 5, *Elements in Financial Statements* of the *Conceptual Framework*.

BC92. Through its discussions, the IPSASB confirmed that the enforceability of a binding arrangement is a key element which may give rise to a liability (specifically, deferred revenue) for the entity, to the extent that the terms of the arrangement are not yet satisfied. An entity recognizes a liability (deferred revenue) in its transaction with a binding arrangement when it has received resources prior to satisfying its compliance obligation(s), and the resource provider can enforce the terms of the binding arrangement, specifically, to enforce its right and require the entity to transfer resources to another party if it does not satisfy its compliance obligation(s). If the criterion in paragraph 82(b) is not met, it may indicate that the arrangement is not a binding arrangement and the entity should reconsider its analysis.

BC93. The IPSASB also confirmed that, after initial recognition, the liability (deferred revenue) is reduced over time as (or fully extinguished at a point in time when) the entity satisfies the compliance obligation(s) associated with resources previously received and earns revenue.

Recognition of Revenue Transactions with Binding Arrangements

BC94. The IPSASB confirmed that for revenue transactions with binding arrangements, there is no initial recognition when no party has started to satisfy its obligations under the binding arrangement, unless the binding arrangement is onerous, as the combined right and obligation constitute a single asset or liability in the statement of financial position. The accounting begins when the binding arrangement is at least partially satisfied (i.e., at least one party begins to satisfy one or more of its obligations).

BC95. In ED 71, the IPSASB proposed that the present obligations in enforceable transactions would either be a specified activity, or a requirement to incur eligible expenditure. Neither a specified

activity nor eligible expenditure requires the entity to transfer a good or service to either the transfer provider or a third-party beneficiary. The entity would recognize an asset and a liability when it had control of, or right to, the resource transferred and the revenue would be recognized (and the liability decreased) when (or as) the present obligation was satisfied.

- BC96. Some respondents to ED 71 did not agree that specified activities and eligible expenditures were present obligations and gave rise to liabilities as defined in the Conceptual Framework. Upon reflection, the IPSASB acknowledged that the intention was not that the specified activities or eligible expenditures in and of themselves give rise to a present [compliance] obligation, but that they are an entity's actions or spending to satisfy a specific promise it agreed to by willingly entering into a binding arrangement. Specified activities and eligible expenditures are examples of ways in which an entity may satisfy its obligations in a binding arrangement in accordance with the requirements in that binding arrangement, thereby informing the recognition of earned revenue. An entity should apply the guidance in paragraphs 98–104 of the accounting model for binding arrangements to determine which method is appropriate for measuring its progress towards complete satisfaction of its compliance obligation. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Determining the Transaction Consideration

- BC97. In responding to constituent's concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.
- BC98. Constituents noted that there are a number of revenue transactions within the scope of IPSAS 47 that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.
- BC99. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probable that a significant reversal in the amount of revenue recognized will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain, which addressed concerns raised by constituents.

Allocating the Transaction Consideration to Compliance Obligations

- BC100. IFRS 15 states that an entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone selling prices of the goods or services. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:

- (a) **Adjusted market assessment approach** – an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;
- (b) **Expected cost plus a margin approach** – an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or
- (c) **Residual approach** – an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

BC101. The IPSASB retained the methods of determining a stand-alone value in IPSAS 47, as they were appropriate for the transactions that would be covered in the Standard and added Implementation Guidance to provide additional guidance on application in the public sector. However, the IPSASB replaced the term “expected cost plus a margin approach”, with the term “expected cost approach”, because certain goods or services are purchased or produced by public sector entities for no charge or for a nominal charge (“cost recovery” or “non-commercial basis”). The IPSASB noted that the expected cost approach is likely more relevant in the public sector for non-exchange-type transactions, whereas the adjusted market assessment approach is likely more relevant for exchange-type transactions.

BC102. These methods are used to estimate the stand-alone value in order to allocate the transaction consideration to each compliance obligation.

Considering Changes in an Entity’s Revenue Arrangement

BC103. Although an entity has the ability to enforce its binding arrangement, a change in internal or external factors, such as the entity’s choice to partially or fully exercise its ability to enforce, may have accounting implications. These factors may vary based on the relationship with the other party or parties in the binding arrangement, jurisdictional considerations, specific circumstances subsequent to initially entering into the binding arrangement, or other considerations.

BC104. The IPSASB highlighted the importance of appropriately assessing the implications of changes in internal and external factors from a public financial management perspective. Appropriately reporting and disclosing information related to these arrangements enables public sector entities to be transparent to its constituents. Changes that do not impact the economic substance of the arrangement (i.e., whether the entity has a binding arrangement) would inform the subsequent remeasurement of any receivables or binding arrangement assets. This assessment requires professional judgment and consideration of all elements of the transaction in order to determine whether and how factors impact subsequent measurement. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Subsequent Measurement of Non-Contractual Receivables

BC105. Receivables arising from contractual agreements would be within the scope of the financial instrument standards. However, it is possible for receivables to arise from other revenue arrangements (specifically, revenue from binding arrangements that are not contracts, or arrangements that are not binding arrangements), which would fall outside the scope of IPSAS 41, *Financial Instruments*. To address the lack of guidance for subsequent measurement of these

receivables, the IPSASB proposed guidance in ED 70 and ED 71 that an entity should initially measure such receivables at the transaction consideration, as required by paragraphs 57–60 and AG115–AG117 of IPSAS 41.

- BC106. While the majority of respondents to ED 70 and ED 71 agreed with the proposed measurement of receivables, some respondents noted that the application of IPSAS 41 to subsequently measure non-contractual receivables was unclear and potentially difficult in practice. The IPSASB acknowledged that while a non-contractual receivable would not strictly meet the definition of a financial asset, the substance and risks are consistent with those of contractual receivables, and these receivables should be accounted for with a consistent set of principles. The IPSASB reaffirmed that consistency in accounting for transactions with the same substance is necessary from a stronger public financial management perspective, and noted that constituents did not challenge the IPSASB's conclusion that there are no public sector-specific reasons which warrant a different accounting treatment for subsequent measurement of non-contractual receivables compared to contractual receivables. The IPSASB also reaffirmed that, as previously expressed by CP respondents, these receivables are generally expected to be classified and measured at amortized cost, as the entity's management model is likely to hold financial assets to collect cash flows (consideration owed in the revenue arrangement) and not to sell financial assets, and the cash flows are solely payments of the principal and any interest outstanding.
- BC107. A few constituents also requested a simplified approach or practical expedient for non-contractual receivables, to address potential difficulties in applying IPSAS 41 in practice. The IPSASB acknowledged that the availability of certain information may pose some difficulties in applying amortized cost which may not be sufficiently eased by the use of the simplified approach for receivables in paragraphs 87-89 of IPSAS 41. However, non-contractual receivables, by nature of the revenue arrangements from which they arise, are typically held to collect expected cash flows related to the revenue transaction (rather than to sell and trade), and have shorter maturity periods (i.e., when consideration becomes due from the resource provider), similar to short-term receivables, and the required estimates would not span a long uncertain time period. Consideration of the time value of money and expected credit losses are necessary to appropriately reflect the economic substance of both contractual and non-contractual receivables. The IPSASB concluded that another simplified approach or practical expedient would not be appropriate, as an inconsistent application of accounting principles for transactions of the same substance and risks would not reflect the economic substance of these transactions.
- BC108. Based on its analysis, the IPSASB added Implementation Guidance to support the principles presented in the authoritative text, and address constituent comments and clarify how IPSAS 41 principles can be applied by analogy to subsequently measure non-contractual receivables.

Presentation (paragraphs 162–193)

Approach to Disclosure Requirements

- BC109. The IPSASB noted that the objective of the disclosure requirements is to provide information which enables users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows. As all of the concepts from IFRS 15 on recognition and measurement of revenue were retained in ED 70, the IPSASB decided that there was no public sector-specific reason to remove any of the disclosure requirements from IFRS 15, and were also incorporated

into ED 71 for consistent disclosure of revenues from binding arrangements with present obligations. The IPSASB acknowledged that the retention of all disclosure requirements from IFRS 15 will result in significantly more requirements than required in the existing IPSAS 23.

- BC110. In response to the concerns noted in paragraph BC84 regarding the potential loss of information on transactions where an entity is compelled to enter into a transaction by legislation or other governmental policy decisions, and where the collection of consideration is not probable or only assessed as probable after accepting a price concession as noted in paragraph AG37, the IPSASB decided to require disclosure of the information (in IPSAS 47 as paragraph 171). The IPSASB noted that these additional disclosures will provide users of the financial statements with details on why an entity was compelled to enter into such transactions, as well as the level of goods or services that were provided by the entity in such transactions for which revenue was not recognized.
- BC111. As part of the exposure drafts, the IPSASB requested constituent responses on whether they agreed with the inclusion of disclosure requirements aligned with IFRS 15, and a public sector-specific disclosure requirement for transactions which an entity is compelled to enter into by legislation or other governmental policy decisions.
- BC112. The majority of respondents to ED 70 and ED 71 generally agreed with the proposed disclosures and the assertion that there was no public sector-specific reason to deviate from IFRS 15 alignment for transactions with the same substance. At the same time, the IPSASB acknowledged feedback from respondents about the volume of disclosures in the two EDs, and decided to take a principle-based approach in reassessing disclosure requirements, focusing on the nature of the transactions and their risks. With this approach in mind, the IPSASB noted that its decisions since the issuance of ED 70 and ED 71, in particular to present revenue guidance in a single standard with a revised order, partially address constituent comments as the overall volume of disclosures has been reduced and has resulted in a more succinct and clear set of disclosures.
- BC113. The IPSASB noted that the key purpose of disclosures, as presented in the IPSASB's Conceptual Framework, is to provide financial information that supports accountability and is useful for decision-making purposes. In the context of revenue, an entity's disclosures should provide information that is useful in understanding the nature, amount, timing, and uncertainty of the entity's revenue for material revenue transactions, and disclosure requirements should prompt entities to disclose (or consider disclosing) such information about its revenue transactions. This means that, similar to other IPSAS, not all disclosure requirements in IPSAS 47 may be applicable for an entity in its preparation of financial statement note disclosures. In practice, it is likely that fewer than the full range of possible disclosures may be made by an entity.
- BC114. Furthermore, under a principle-based approach, disclosures should align with the accounting principles set by the IPSASB within the respective accounting models.
- (a) Transactions arising without binding arrangements are expected to comprise a majority of public sector revenues. IPSAS 23 disclosures (all brought into ED 71) remain relevant, useful, and appropriate for public sector revenues arising without binding arrangements; and
 - (b) Transactions arising with binding arrangements are accounted for under the same model because the enforceability of binding arrangements drives the accounting principles to capture the substance and risks of revenue with binding arrangements. To maintain a principle-based approach, all transactions accounted for under the binding arrangement model should be

subject to the same set of disclosure requirements. The proposed disclosures, based on IFRS 15 and adapted for the public sector, are consistent with the concepts and principles in the binding arrangement accounting model that may be applied to public sector revenue transactions with binding arrangements. Thus, they remain relevant, useful, and appropriate for public sector revenue arising with binding arrangements.

BC115. Based on its analysis, the IPSASB decided to retain the disclosures previously proposed in ED 70 and ED 71, as they meet the disclosure objective and remain appropriate and consistent with the principles for the respective accounting models. An entity may apply all disclosure requirements if they are relevant for any specific transaction, but need not apply any requirements that are not relevant. This is consistent with the application of the accounting models themselves, where an entity may apply the principles and guidance in each accounting model for any revenue transaction, but need not apply those that are not relevant for a specific transaction. A public sector entity will need to consider and determine which disclosure requirements apply to their revenue transactions.

BC116. The IPSASB acknowledged that a few respondents requested specific additional disclosures and highlighted that IPSAS disclosure requirements do not prohibit entities from disclosing any information not formally required in any IPSAS. An entity can choose to provide additional disclosures at its own discretion, for example, if it deems the information would meet the overall objective of disclosure requirements and would provide relevant, useful, and appropriate information for decision-making purposes.

BC117. The IPSASB noted that some entities which provide goods, services, or other assets to third-party beneficiaries would like to disclose information in their financial statements regarding their programs. As a result, the IPSASB decided to revise paragraph AG207, which provides suggestions for the categories used to disaggregate revenue disclosures, to include a category for revenue earned from the provision of goods or services to third-party beneficiaries.

Application Guidance (paragraphs AG1–AG207)

Scope Exclusions

BC118. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph AG7). Many public sector entities receive inflows of resources from entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Enforceability

Assessment of Enforceability

BC119. Some respondents to ED 70 and ED 71 noted that the accounting guidance mentioned several mechanisms or factors of enforceability, but were unclear on whether certain factors are considered more demonstrative than others. The IPSASB considered these comments and debated whether the presence or absence of specific factors, such as past history of enforceability, demonstrates

the enforceability of a binding arrangement. The IPSASB concluded that the impact of specific factors on the assessment of enforceability will be specific to each jurisdiction and the respective binding arrangement. In other words, the principle related to enforceability of a binding arrangement remains appropriate but application of this principle in practice may vary depending on the relevant mechanisms for the entity.

BC120. The IPSASB also confirmed that the assessment of enforceability is based on the ability to enforce. This assessment is to be completed when the entity first enters into the arrangement and when a significant change in external or internal factors indicates that there may be a change in the enforceability of that binding arrangement (i.e., a change in the substance of the arrangement).

BC121. Based on these discussions, the IPSASB decided to revise guidance to emphasize that an entity should assess all relevant factors at the transaction date to determine whether the parties in the arrangement have the ability to enforce the rights and obligations in the arrangement. Judgment is required to determine which factors of enforceability are more demonstrative in the respective jurisdiction and binding arrangement. The IPSASB decided to provide additional authoritative guidance on the concept of enforceability in a binding arrangement.

Enforceability through Equivalent Means

BC122. The IPSASB noted that some binding arrangements in the public sector are enforceable not by legal means but by equivalent means (i.e., “like legal”) through other enforcement mechanisms. Equivalent means of enforceability are legally binding, as described in the Conceptual Framework, and are intended to capture ways in which entities that cannot enter into legal arrangements can still enforce similar to the force of law. The CP proposed the following as possible enforcement mechanisms by equivalent means:

- (a) Legislation;
- (b) Cabinet and ministerial decisions; and
- (c) Reduction of future funding.

BC123. The IPSASB agreed that cabinet and ministerial decisions, including executive authority, may be subsets of legislation and may in some circumstances be valid enforcement mechanisms. Paragraphs AG18–AG23 of this Standard discusses the equivalent enforcement mechanisms.

BC124. Constituents were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the resource provider had a compliance obligation to provide future funding in another binding arrangement. Without this binding arrangement and its compliance obligation, the threat of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.

BC125. The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.

BC126. In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.17D of the Conceptual Framework states that “economic coercion, political necessity or other circumstances may give rise

to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid a transfer of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation”.

BC127. However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of IPSAS 47 because a non-legally binding obligation as cited in the Conceptual Framework is binding only for the party to whom the obligation exists, whereas a binding arrangement as used in IPSAS 47 requires both parties to agree to both the enforceable rights and obligations within that agreement.

BC128. The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g., a general policy statement or announcement following a natural disaster) would create a binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for by the government under IPSAS 19.

Determination of Stand-Alone Value

BC129. The determination of the stand-alone selling price in IFRS 15 is largely based on the price at which an entity would sell a promised good or service separately to a customer. The IPSASB noted that in the public sector, the determination of stand-alone value may be challenging in situations where an entity is providing goods or services to third-party beneficiaries for no consideration, and some may interpret the requirements for the determination of stand-alone value to only consider amounts received directly from the party receiving the goods or services. To address the issue, the IPSASB added guidance in paragraph AG110, which states that a stand-alone value in such situations shall be 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. Where market information is not available, the stand-alone value is based on an estimate using the expected cost approach.

Capital Transfers

BC130. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. This Standard includes guidance on accounting for capital transfers. The IPSASB noted that the accounting for capital transfers, which by definition arise from binding arrangements, would be the same as for any other revenue transaction from a binding arrangement: revenue from capital transfers would be recognized as the compliance obligations are satisfied.

BC131. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting for “grants related to assets” which is defined as: “Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be

attached restricting the type or location of the assets or the periods during which they are to be acquired or held”.

- BC132. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated.
- BC133. The IPSASB agreed that this approach did not provide useful or representationally faithful information for users. An entity earns revenue in a capital transfer by acquiring or constructing a non-financial asset as specified in the binding arrangement from which it arises. In other words, the nature of the revenue in the capital transfer is directly associated with the acquisition or construction, rather than the subsequent use and depreciation, of the non-financial asset. The IPSASB therefore decided to develop an accounting approach for capital transfers which recognized revenue as the non-financial asset (capital asset) is either acquired or constructed as specified in the binding arrangement.
- BC134. As the IPSASB revised revenue guidance in response to constituent comments on ED 70 and ED 71, the IPSASB assessed whether the accounting principles in the binding arrangement model remain appropriate for capital transfers. The IPSASB concluded that the accounting principles remain appropriate, and that revenue should be recognized as the compliance obligation to acquire or construct the non-financial asset is satisfied. The entity applying the guidance will also need to consider whether any requirement to operate the non-financial asset is an individual compliance obligation to be accounted for separately. The IPSASB revised and enhanced the Illustrative Examples to help illustrate the application of the accounting principles.
- BC135. The IPSASB considered that some capital transfers may include multiple compliance obligations, one being the acquisition or construction of a capital asset and another being the operation of the capital asset in a particular way for a specified period of time. In these circumstances, the IPSASB decided that the accounting for each compliance obligation should be considered separately in accordance with the nature of each obligation.

Services In-Kind

- BC136. This Standard permits, but does not require, recognition of services in-kind. This Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.
- BC137. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received, particularly if those services were integral to the operations of the entity.

Disclosures: Materiality and Aggregation

- BC138. The IPSASB also discussed the need for entities to apply the concept of materiality when providing the disclosures required by IPSAS 47. Based on feedback from constituents on previously issued IPSAS and in response to ED 70 and ED 71, the IPSASB noted that it would be helpful to include

an explicit reference to the materiality and aggregation guidance from paragraphs 45–47 of IPSAS 1. This reference was added to paragraph AG204 of IPSAS 47.

Consideration of Re-Exposure

BC139. The IPSASB considered whether there had been a substantial change to the EDs such that re-exposure may be necessary:

- (a) The IPSASB discussed the differences between IPSAS 47, and ED 70 and ED 71 issued in 2020. In particular, the IPSASB noted that key differences include the revised structure of guidance, based on whether there is a binding arrangement, and the use of the term “compliance obligation” for the unit of account for revenue accounting, as summarized in BC14–BC30. The IPSASB agreed the changes made since the exposure draft process addressed issues raised by constituents, and resulted in a clearer Standard that retains the principles set out in the EDs. Thus, the IPSASB was of the view that there were no substantial changes to the substance of the guidance or the principles in the original EDs.
- (b) The IPSASB noted that issuance of IPSAS 47 would address issues identified by constituents with the existing suite of revenue IPSAS. The IPSASB also agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the Standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.

BC140. Based on its assessment, the IPSASB decided to approve IPSAS 47 without re-exposure, as there were no substantial changes, and to finalize and issue the Standard, as that was in the public interest.

Implementation Guidance

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

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a “capital transfer”?

It depends. Public sector 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 sector 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 judgment. 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 judgment 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 judgment and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Revenue Subject to Appropriations

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

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or similar authority. Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the resource provider (which would be similar in substance to a unilateral termination clause without penalty).

Appropriations on their own do not prove nor refute the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred are subject to the completion of an appropriation process as an explicit term or condition (either in writing, orally, or implied through customary practices). In such circumstances, the entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the entity to require the

resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, prior to the completion of the appropriation process. The limitation (that the resources to be transferred are subject to the completion of the appropriation process) does not have substance when the entity can establish an enforceable 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 authorization 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 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 derecognize 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 derecognize the asset if it fully loses the ability to enforce its right due to legislative changes. The respective impairment loss would be recognized in accordance with 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 recognizes 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 recognized. 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 installments on a periodic basis before the taxable amount is finalized, which may require additional taxes owed, or a refund to the taxpayer for any excess. An entity shall recognize the inflow of resources (or the right to an inflow of resources) as an asset, and recognize 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, installments), and the use of experts.

Estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Section D: Revenue from Transactions with Binding Arrangements

D.1 Identifying Compliance Obligations in a Binding Arrangement

Binding arrangements in the public sector vary substantially. Some binding arrangements may require the entity, as the resource recipient, to achieve a specific holistic service objective, while other binding arrangements may impose requirements related to specific goods and services. How does an entity determine the individual compliance obligations in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

A binding arrangement has at least one compliance obligation. A compliance obligation, as defined in paragraph 4, is a unit of account to determine distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of revenue. An entity must use professional judgment 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 judgment 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., labor, 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 judgment 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 in the public sector 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 sector 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 judgment 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 sector 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 maximize 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 sector 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 recognize 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 recognize 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 IPSAS 28, *Financial Instruments: Presentation*, is subsequently measured by applying 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 IPSAS 41 by analogy to ensure that transactions with the same substance are accounted for using consistent principles. When applying IPSAS 41 principles by analogy, the entity should use judgment 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 IPSAS 41 to be subsequently measured at amortized 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 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 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.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 47.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 47, *Revenue*, to particular revenue transactions on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 47.

Identify the Revenue Transaction

IE2. Examples 1–2 illustrate the requirements in paragraphs 9–16 of 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 CU5¹¹ million from a government body (the Government) to fund its employment programs. The agreement requires funding to be spent on programs 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 programs, 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 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 programs) 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.

¹¹ 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 local government (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 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 IPSAS 47 on enforceability, which complement the requirements in paragraphs 11–14.

Example 3 – Enforceability by Legal Means

IE10. Pursuant to a ministerial directive, a state government (the Government) signed a memorandum of understanding with the Department of Public Works (Public Works), for Public Works to receive funds to build a government office building. The memorandum is not binding in the court of law, does not impose a refund obligation for Public Works 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 Government and Public Works relied upon it during their contract negotiations. Public Works commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Public Works has reported to the Government on its first month of work, and the Government has accepted the work performed to date.

- IE11. The parties have relied on the memorandum of understanding, as follows:
- (a) Public Works 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 Government.
- IE12. Thus, the memorandum is enforceable by law in the parties' jurisdiction based on the concept of promissory estoppel. That is, the Government has the right to use its court of law to ensure that Public Works satisfies the promises in the memorandum or seek redress should they not be satisfied. Similarly, Public Works has the right to use the court of law to enforce the receipt of funds from the Government for work performed to date. As a result, the memorandum is considered enforceable through legal means in accordance with paragraphs AG14–AG18 of IPSAS 47.

Example 4 – Arrangement does not include an Enforceable Obligation

- IE13. The national 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 recognizes 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 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 recognizes revenue when it recognizes the land as an asset in accordance with IPSAS 45, *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 organization 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 recognize 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 analyzes 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 recognizes an increase in an asset (for the transfer received) and revenue.

Example 7 – Revenue Subject to Completion of the Appropriations Process

IE21. A national government (Government N) and local government (Government L) both have a financial year end of December 31. On March 15, 20X2, Government N enters into a two-year arrangement with Government L to transfer CU15 million (CU10 million in 20X2 and CU5 million in 20X3) to Government L, to be used to reduce air pollution in accordance with Government N'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 March 31, 20X2, and transfers the resources on April 15, 20X2. The appropriation for CU5 million is not completed in March 20X2 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 N 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 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 N 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 March 31, 20X2 when the appropriation process is completed, and the arrangement now meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 31, 20X2 because the binding arrangement is wholly unsatisfied.
- IE25. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability, when it receives the resources. It does not recognize 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 authorization process in 20X3 for the remaining CU5 million.

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

- IE26. Authorizing legislation requires Government N to invest in measures to reduce air pollution, and the arrangement is a firm commitment by Government N 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 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 March 15, 20X2, which would meet the definition of an asset and the arrangement meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 15, 20X2 because the binding arrangement is wholly unsatisfied.
- IE28. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability. It does not recognize an asset for the CU5 million. Government L will assess the accounting implications of the authorization process in 20X3 for the remaining CU5 million.

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 recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts) in accordance with paragraph 44 of 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 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 IPSAS 47 with paragraphs 109 and 115 of IPSAS 47 on estimating variable consideration (Examples 10–11); and
 - (b) Paragraph AG180 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 12).

Example 9 – Collectability of the Consideration

- IE32. A local government (the Government) 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 program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the Resident. The program allows the Residents to pay the price over a period of 20 years, but 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 Government for the remaining balance of the promised consideration.
- IE33. As part of this rent-to-own program, the Government enters into a binding arrangement with a Resident for the sale of a residential unit with a market price of CU400,000. Up to the time of the purchase, the Resident had cumulatively paid CU150,000 in rent to the Government, 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 Government for the remaining CU245,000 of the promised consideration. However, the Resident is only expected to pay CU180,000 (including the CU5,000 deposit) until they begin to collect their superannuation, and at that time, their expected level of income will result in payments ceasing. The Resident obtains control of the unit at the inception of the binding arrangement and payment of the CU5,000 deposit.
- IE34. In assessing whether the binding arrangement meets the criteria in paragraph 56 of IPSAS 47, the Government concludes that the criterion in paragraph 56(e) of 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 Government observes that the Resident may only pay up to CU180,000 based on the terms of the program.

- IE35. Because the criteria in paragraph 56 of IPSAS 47 are not all met, the Government applies paragraphs 58 and 81–86 of IPSAS 47 to determine the accounting for the non-refundable deposit of CU5,000. The Government observes that the events described in paragraph 58(a) have occurred—that is, the Government has transferred control of the building to the Resident, and the Government has no obligation to transfer additional goods or services for the CU5,000 payment received, and the payment is non-refundable. Consequently, in accordance with paragraph 58, the Government recognizes 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 IPSAS 47 is met, the Agency also considers paragraphs 109 and 115(b) of 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 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 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 IPSAS 47.

Example 11 – Compelled Revenue Transaction—Implicit Price Concession

- IE39. A government hospital (the Hospital) provides medical services to an uninsured patient in the emergency room. The Hospital is required by law to provide medical services to all emergency room patients, 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 IPSAS 47 and, in accordance with paragraph 58 of 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 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 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 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 IPSAS 47.

Example 12 – Reassessing the Criteria to Apply the Binding Arrangement Model

- IE43. The Department of Natural Resources (the Department) 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 IPSAS 47 and the Department accounts for the binding arrangement with the Company in accordance with paragraphs 56–147 in IPSAS 47. The Department recognizes revenue when the Company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG180 of 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 Department continues to recognize 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 Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.
- IE46. During the third year of the binding arrangement, the Company continues to use the permit issued by the Department. However, the Department learns that the Company has lost access to credit and its major customers, and thus the Company's ability to pay significantly deteriorates. The Department 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 IPSAS 47, the Department reassesses the criteria in paragraph 56 of IPSAS 47 and determines that they are not met because

it is no longer probable that the Department will collect the consideration to which it will be entitled. Accordingly, the Department does not recognize any further revenue associated with the Company's future usage of its permit. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41.

Modifications

IE47. Examples 13–15 illustrate the requirements in paragraphs 63–66 of IPSAS 47 on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

- (a) Paragraphs 68–77 of IPSAS 47 on identifying compliance obligations (Example 15);
- (b) Paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration (Examples 14 and 15); and
- (c) Paragraphs 144–147 of IPSAS 47 on changes in the transaction consideration (Example 14).

Example 13 – Modification of a Binding Arrangement for Goods

IE48. An intergovernmental organization (the Organization) promises to provide 1.2 million textbooks to a national 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 Organization's donors. The Organization transfers control of each textbook at a point in time. After the Organization 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 IPSAS 47) from the original textbooks.

IE50. In accordance with paragraph 65 of 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 Organization recognizes 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 Organization contained minor misprints. The Organization 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 Organization 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 Organization recognizes 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 Organization 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 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 Organization applies the requirements in paragraph 66(a) of 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 recognized as revenue for each of the remaining textbooks is a blended price of CU9.33 $\{[(CU10 \times 600,000 \text{ textbooks not yet transferred under the original binding arrangement}) + (CU8.0 \times 300,000 \text{ textbooks to be transferred under the modification to a binding arrangement})] \div 900,000 \text{ remaining textbooks}\}$.

Example 14 – Change in the Transaction Consideration after a Modification of a Binding Arrangement

- IE54. On July 1, 20X0, the Department of Defense (the Department) promises to transfer two distinct used military products, a light-armored vehicle and spare parts, to a foreign government (Government F). The light-armored 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 Department 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 recognized will not occur when the uncertainty is resolved.
- IE55. The transaction consideration of CU1.2 million is allocated equally to the compliance obligation for the light-armored 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-armored vehicle was transferred to Government F at the inception of the binding arrangement, the Department recognizes revenue of CU600,000.
- IE57. On November 30, 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 June 30, 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-armored vehicle and spare parts.
- IE58. The Department 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-armored 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 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 Department 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 Department 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 recognized 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 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 IPSAS 47, the change in the transaction consideration is allocated to the compliance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes revenue of CU20,000 for the light-armored 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 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 Department 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 March 31, 20X1, the spare parts are transferred to Government F and the Department recognizes revenue of CU460,000. On June 30, 20X1, the ammunition is transferred to the foreign government and the Department recognizes revenue of CU460,000.

Example 15 – Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

- IE62. The Department of Public Works (Public Works) enters into a binding arrangement to construct a residential building for the Department of Housing (Housing) on land owned by Housing for promised consideration of CU10 million and a bonus of CU2 million if the building is completed within 24 months. Public Works accounts for the promised bundle of goods and services as a single

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compliance obligation satisfied over time in accordance with paragraph AG72(b) of IPSAS 47 because Housing controls the building during construction. At the inception of the binding arrangement, Public Works expects the following:

CU	
Transaction consideration	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	<u>1,000,000</u>

IE63. At the inception of the binding arrangement, Public Works 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 recognized will not occur. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE64. Public Works 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, Public Works 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). Public Works reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 119–121 of IPSAS 47. Consequently, the cumulative revenue and costs recognized for the first year are as follows:

CU	
Revenue	6,000,000
Costs	5.400,000
Surplus	<u>600,000</u>

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, Public Works 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 recognized in accordance with paragraph 119 of IPSAS 47 and includes the CU2 million in the transaction consideration. In assessing the modification to a binding arrangement, Public Works evaluates paragraph 73(b) of IPSAS 47 and concludes (on the basis of the factors in paragraph 76 of 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, Public Works 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 IPSAS 47). Public Works 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). Public Works recognizes additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction consideration) – CU6 million revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Identifying Compliance Obligations in a Binding Arrangement

- IE67. Examples 16–19 illustrate the requirements in paragraphs 68–77 of 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 state government (the State 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 State Government to determine which goods and services are distinct in accordance with paragraph 73 of 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 State 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 State 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 IPSAS 47 is met.
- IE70. The Agency also considers the principle and the factors in paragraph 76 of IPSAS 47 and determines that the promise to transfer each good and service to the State Government is separately identifiable from each of the other promises (thus the criterion in paragraph 73(b) of IPSAS 47 is met). In reaching this determination, the Agency considers that, although it integrates the software into the State Government's system, the installation services do not significantly affect the State Government's ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the State Government's ability to use, and benefit or receive service potential from, the software license during the license period. The Agency further observes that none of the promised goods or services significantly modify or customize 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 license 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 license;
 - (b) An installation service;
 - (c) Software updates; and
 - (d) Technical support.
- IE72. The Agency applies paragraphs 87–97 of 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 license in accordance with paragraph AG173 of IPSAS 47.

Case B – Significant Customization

- 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 customized to add significant new functionality to enable the software to interface with other customized software applications used by the State Government. The customized installation service can be provided by other entities.
- IE74. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 73 of 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 license, 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 IPSAS 47. The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation service as specified in the binding arrangement. In other words, the Agency is using the license and the customized 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 IPSAS 47). The software is significantly modified and customized by the service (see paragraph 76(b) of IPSAS 47). Consequently, the Agency determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph 73(b) of IPSAS 47 is not met. Thus, the software license and the customized 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 customization (which comprises the license for the software and the customized installation service);
- (b) Software updates; and
- (c) Technical support.

IE77. The Agency applies paragraphs 87–97 of 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 state government office (State Government) to provide a piece of equipment and installation services. The equipment is operational without any customization 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 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 IPSAS 47. The State 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 State Government also can generate economic benefits or service potential from the installation services together with other resources that the State 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 IPSAS 47). The Agency considers the principle and the factors in paragraph 76 of 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 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 customize or significantly modify the equipment.
- (c) Although the State 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 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 State 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 State Government. Although the State 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 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 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 state government office (State Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) and to provide specialized 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 State 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 IPSAS 47, because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The State 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 State 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 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 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 customized 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 State 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 State Government did not purchase any consumables, and would be able to satisfy its promise to provide the consumables, even if the State 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 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. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Health to build a hospital. Public Works 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 IPSAS 47. That is, the Department 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 Public Works regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Department 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 IPSAS 47 (on the basis of the factors in paragraph 76 of IPSAS 47). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE93. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services are not distinct. Public Works 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. The Department of Research Sciences (the Department) enters into a binding arrangement with a local government (the Government) that will result in the delivery of multiple highly complex,

specialized road trains. The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the Government, based on a custom design that is owned by the Government and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department 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 Department 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 IPSAS 47 because the Government 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 Department observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which the Government has entered into a binding arrangement in accordance with the Government's specifications. The Department 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 IPSAS 47. In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the Government. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the road trains has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated.
- IE97. Because the criterion in paragraph 73(b) of IPSAS 47 is not met, the goods and services that will be provided by the Department are not distinct. The Department 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 Organization (the Organization) 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 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 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 IPSAS 47 on the basis of the factors in paragraph 76 of 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 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 national government (Government N) provides CU10 million to a provincial government (Government P) 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 modernization, 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 Government N. Furthermore, Government P 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 Government N.
- IE103. Government P recognizes the inflow of CU10 million as an asset, and an equivalent liability because it is required to transfer resources back to Government N if it does not satisfy the compliance obligations in the binding arrangement.
- IE104. Government P 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 modernize the existing railroad and tramway system, while other goods and services would be required to build a new railroad or tramway system. Thus, Government P 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 IPSAS 47 because Government N 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, Government P 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 modernize the existing railroad and tramway system represent a single combined output: the modernization of the existing system. Government P 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) Government P is not significantly integrating these three combined outputs, nor do the outputs significantly modify, customize, or depend on each other. Rather, Government P is responsible for generating three separately identifiable outputs in accordance with paragraphs 73(b) and 76 of IPSAS 47: the modernization work, the new system, and the rolling stock.

IE106. Because both criteria in paragraph 73 of IPSAS 47 are met, the binding arrangement contains three separate compliance obligations;

- (a) The compliance obligation to use CU4 million for modernizing 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. Government P reduces the liability as or when it satisfies the compliance obligations, and recognizes revenue in the statement of financial performance 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 IPSAS 47. The Government determines that both the product and the maintenance services meet the criterion in paragraph 73(a) of 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 IPSAS 47

on the basis of the principle and the factors in paragraph 76 of 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 customize 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 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 program to urban areas. During the negotiations on this new urban program, 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 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 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 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 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 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 (Example 20 Case A);
- (b) Paragraphs 95(a) of 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 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 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 regional government (the Government) enters into a binding arrangement to provide CU1.2 million to the regional hospital network (the Hospital). The Government requires the Hospital to use the CU1.2 million in the operation of its medical imaging department.

IE119. The use of funds in the medical imaging department is a single compliance obligation in accordance with paragraph 68(b) of IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 92(a) of 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 recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Case B – Satisfaction of Compliance Obligation to Transfer Goods or Services to Another Party

- IE120. A public payroll service center (the Payroll Center) enters into a binding arrangement to provide monthly payroll processing services to a local government's 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 IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph 95(a) of IPSAS 47 because the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center'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 Center has provided to date also demonstrates that the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. The Payroll Center disregards any practical limitations on transferring the remaining compliance obligation, including setup activities that would need to be undertaken by another entity. The Payroll Center recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Example 21 – Assessing Alternative Use and Right to Consideration

- IE122. The Office of the Auditor General (the Auditor) enters into a binding arrangement with a government agency (the Agency) to provide financial statement audit services that result in the Auditor providing an audit opinion to the Agency. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Agency. If the Agency were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Agency to compensate the Auditor for its costs incurred.
- IE123. The Auditor considers the criterion in paragraph 95(a) of IPSAS 47 to determine whether the Agency simultaneously receives and consumes the economic benefits or service potential of the Auditor's performance. If the Auditor were to be unable to satisfy its compliance obligation and the Agency hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Agency will generate economic benefits or service potential of the Auditor's performance only when the Agency receives the audit opinion. Consequently, the Auditor concludes that the criterion in paragraph 95(a) of IPSAS 47 is not met.
- IE124. However, the Auditor's compliance obligation meets the criterion in paragraph 95(c) of 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, the Auditor has a compliance obligation satisfied over time because of both of the following factors:
- (a) In accordance with paragraphs 96 of IPSAS 47, the development of the audit opinion does not create an asset with an alternative use to the Auditor because the audit relates to facts and circumstances that are specific to the Agency. Therefore, the Auditor cannot use the audit opinion for any other purpose.

- (b) In accordance with paragraphs 97 of IPSAS 47, the Auditor has an enforceable right to receive consideration for its performance completed to date for its costs.

IE125. Consequently, the Auditor recognizes revenue over time by measuring the progress towards complete satisfaction of the compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Example 22 – Assessing Whether a Compliance Obligation is Satisfied at a Point in Time or Over Time

IE126. The Department of Public Works (Public Works) is developing multi-unit residential complexes to be sold to the Department of Housing (Housing) as well as a variety of commercial entities. Housing enters into a binding arrangement with Public Works 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. Housing pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Public Works 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 Housing obtains physical possession of the units. If Housing defaults on the binding arrangement before completion of the units, Public Works only has the right to retain the deposit.

IE128. At the inception of the binding arrangement, Public Works applies paragraph 95(c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works 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 Housing. Because Public Works 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 IPSAS 47. Instead, Public Works accounts for the sale of the units as compliance obligations satisfied at a point in time in accordance with paragraph 97 of IPSAS 47.

Case B – Entity has an Enforceable Right to Consideration for Performance Completed to Date

IE129. Housing 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 Public Works from being able to direct the units to another purchaser. In addition, Housing does not have the right to terminate the binding arrangement unless Public Works fails to perform as promised. If Housing defaults on its obligations by failing to make the promised progress payments as and when they are due, Public Works 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, Public Works applies paragraph 95(c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works determines that the units it constructs do not have an alternative use to Public Works because the binding arrangement precludes Public Works from transferring the specified units to another purchaser. Public Works 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. Public Works also has a right to consideration for performance completed to date in accordance with paragraphs 97(a) of IPSAS 47. This is because if Housing were to default on its obligations, Public Works 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 IPSAS 47 are met and Public Works has a compliance obligation that it satisfies over time. To recognize revenue for that compliance obligation satisfied over time, Public Works measures its progress towards complete satisfaction of its compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.
- IE133. In the construction of a multi-unit residential complex, Public Works may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Public Works would account for each binding arrangement separately. However, depending on the nature of the construction, Public Works' 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 Housing, either Public Works can require Housing to perform as required under the binding arrangement or Public Works 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 Public Works could cancel the binding arrangement (in which case Housing's obligation to Public Works would be limited to transferring control of the partially completed units to Public Works and paying the penalty prescribed), Public Works 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 Public Works may choose to cancel the binding arrangement in the event Housing defaults on its obligations would not affect that assessment (see paragraph AG69 of IPSAS 47), provided that Public Work's rights to require Housing 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 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 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 government (the Government) 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 Government 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 Government concludes that the member of the public simultaneously receives and consumes the economic benefits or service potential of the local government’s performance as it performs by making the pools available. Consequently, the Government’s compliance obligation is satisfied over time in accordance with paragraph 92(a) of IPSAS 47.
- IE139. The Government also determines that the member of the public consumes economic benefits or service potential from the Government 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 Government 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 recognizes revenue on a straight-line basis throughout the year at CU100 per month.

Example 24 – Measuring Progress for Uninstalled Materials

- IE140. In November 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a 3-storey building and install new elevators for a total consideration of CU5 million. Public Works 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. Public Works determines that it acts as a principal in accordance with paragraphs AG117–AG125 of IPSAS 47, because it obtains control of the elevators before they are transferred to the other department.
- 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. Public Works uses an input method based on costs incurred to measure its progress towards complete satisfaction of the compliance obligation. Public Works 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 IPSAS 47. The other department obtains control of the elevators when they are delivered to the site in December 20X2, although the

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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). Public Works is not involved in designing or manufacturing the elevators.

IE143. Public Works 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 IPSAS 47, Public Works adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction consideration. Public Works recognizes 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, Public Works 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, Public Works recognizes the following:

CU		
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	<u>200,000</u>	

(A) Revenue recognized is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction consideration – CU1,500,000 costs of elevators.)

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Measurement of Revenue Transactions with a Binding Arrangement

Variable Consideration

Example 25 – Estimating Variable Consideration

IE146. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Transportation (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, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE148. Public Works 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 IPSAS 47. In determining the transaction consideration, Public Works

prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 116 of IPSAS 47:

- (a) Public Works 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 Public Works expects to better predict the amount of consideration to which it will be entitled.
- (b) Public Works 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 Public Works expects to better predict the amount of consideration to which it will be entitled.

IE149. Public Works considers the requirements in paragraphs 119–121 of 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 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 IPSAS 47 on constraining estimates of variable consideration; and
- (b) Paragraphs AG96–AG103 of 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 recognize 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 recognized will not occur in accordance with paragraphs 119–121 of IPSAS 47. Consequently, revenue is recognized 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 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

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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 IPSAS 47:

- (a) When the trains are transferred to the Operator, in accordance with paragraph AG97 of IPSAS 47:

Asset for right to recover trains to be returned	CU80 million ¹²
Inventory	

- (b) During the three-month right of return period, no interest is recognized in accordance with paragraph 128 of IPSAS 47 because no binding arrangement asset or receivable has been recognized.

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

Receivable	CU100 million ¹³
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 recognized in accordance with IPSAS 41. In determining the effective interest rate in accordance with 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. The Department of Public Works (Public Works) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Public Works 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 Public Works' 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 Public Works only when the building is complete.

IE158. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Public Works' 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 IPSAS 47. The withholding of a specified percentage of each

¹² This example does not consider expected costs to recover the asset.

¹³ The receivable recognized would be measured in accordance with 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 recognized at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

milestone payment is intended to protect the resource provider from Public Works failing to adequately complete its compliance obligations under the binding arrangement.

Example 28 – Determining the Discount Rate

IE159. The Department of Communications and Information (the Department) 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 Department considers paragraph 127 of 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 Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest of five percent in the binding arrangement reflects the credit characteristics of the foreign government).

IE161. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Department accounts for the receivable in accordance with 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 Department 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 Department 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 IPSAS 47, the Department 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 Department determines that the transaction consideration is CU84.83 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Department recognizes revenue and a loan receivable for that amount. The Department accounts for the loan receivable in accordance with IPSAS 41.

Example 29 – Advance Payment and Assessment of Discount Rate

IE164. The national 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 national government plans to sell the surplus vehicles. To achieve this objective, the national government enters into a binding arrangement with a state 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

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alternative payment options: payment of CU5 million in two years when the state government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The state government elects to pay CU4 million when the binding arrangement is signed.

IE165. The national government concludes that the binding arrangement contains a significant financing component because of the length of time between when the state government pays for the vehicle and when the national government transfers the vehicles to the state 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 national government determines that, in accordance with paragraph 127 of IPSAS 47, the rate that should be used in adjusting the promised consideration is six percent, which is the national government's incremental borrowing rate.

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

- (a) Recognize 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 national government adjusts the promised amount of consideration (in accordance with paragraph 128 of IPSAS 47) and builds up the binding arrangement liability by recognizing interest on CU4 million at six percent for two years:

Interest expense	CU494,000 ¹⁴
Binding arrangement liability	CU494,000

- (c) Recognize 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

¹⁴ CU494,000 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

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 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 IPSAS 47 on non-cash consideration, as well as the requirements in paragraph 68 of IPSAS 47 on identifying compliance obligations.

Example 31 – Entitlement to Non-Cash Consideration

- IE172. A public broadcaster (the Broadcaster) enters into a binding arrangement with a private media company (the Media Company) to provide production services for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The Broadcaster concludes that the production services are a single compliance obligation in accordance with paragraph 68(b) of 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 programs 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 recognized), the Broadcaster first considers the fair value of the right to air the popular sports program. However, as the right to air the program 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 IPSAS 47 on allocating the transaction consideration to compliance obligations. In addition, the following requirements are illustrated in these examples:

- (a) Paragraph 116 of IPSAS 47 on variable consideration (Example 34);
- (b) Paragraphs AG107–AG109 of IPSAS 47 on the allocation of a discount (Examples 32-33); and
- (c) Paragraph AG182 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 34).

Example 32 – Allocation Methodology

IE176. A Department of Defense (the Department) enters into a binding arrangement with another country to provide a fighter jet, specialized spare parts, and a specialized engine in exchange for CU100 million. The Department will satisfy the compliance obligations for the jet, spare parts, and engine at different points in time. The Department can provide fighter jets separately and therefore the stand-alone value is directly observable. The stand-alone values of the specialized spare parts and specialized engine are not directly observable.

IE177. Because the stand-alone values for the specialized spare parts and specialized engine are not directly observable, the Department must estimate them. To estimate the stand-alone values, the Department uses the adjusted market assessment approach for the specialized spare parts and the expected cost approach for the specialized engines. In making those estimates, the Department maximizes the use of observable inputs (in accordance with paragraph 138 of IPSAS 47). The Department estimates the stand-alone values as follows:

Product	Stand-alone value	Method
CU (millions)		
Fighter jet	90	Directly observable (see paragraph 137 of IPSAS 47)
Spare parts	10	Adjusted market assessment approach (see paragraph 139(a) of IPSAS 47)
Specialized Engine	20	Expected cost approach (see paragraph 139(b) of 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 Department considers whether it has observable evidence about the compliance obligation to which the entire discount belongs (in accordance with paragraph AG108 of IPSAS 47) and concludes that it does not. Consequently, in accordance with paragraphs 136 and AG107 of IPSAS 47, the discount is allocated proportionately across the fighter jet, spare parts and the specialized engine. The discount, and therefore the transaction consideration, is allocated as follows:

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Product	Allocated Transaction Consideration	
	CU (millions)	
Fighter jet	75	$(\text{CU}90 \div \text{CU}120 \times \text{CU}100)$
Spare parts	8	$(\text{CU}10 \div \text{CU}120 \times \text{CU}100)$
Engine	17	$(\text{CU}20 \div \text{CU}120 \times \text{CU}100)$
Total	100	

Example 33 – Allocating a Discount

IE179. A government procurement agency (the Agency) regularly provides common-use supplies, including Supplies A, B and C individually, to government entities. The Agency establishes the following stand-alone values:

Product	Stand-alone value
CU	
Supply A	40
Supply B	55
Supply C	45
Total	140

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

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

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

IE182. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method (in accordance with paragraph AG107 of 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 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 recognize 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 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 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 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 IPSAS 47)
Supplies B and C	60	Directly observable with discount (see paragraph AG108 of IPSAS 47)
Supply D	30	Residual approach (see paragraph 139(c) of 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 IPSAS 47 and the requirements in paragraph 138 of 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 IPSAS 47.

Example 34 – Allocation of Variable Consideration

IE190. A government-owned 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 IPSAS 47.

IE192. To allocate the transaction consideration, the University considers the criteria in paragraph 142 of 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 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 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 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 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 recognize revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG180 of IPSAS 47, the University recognizes revenue for the sales-based royalty when those subsequent sales occur.
- IE194. When Formulation X is transferred, the University recognizes 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 IPSAS 47.
- IE196. To allocate the transaction consideration, the University applies the criteria in paragraph 142 of 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 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 IPSAS 47, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize 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 recognizes as revenue the CU167,000 ($CU1,000,000 \div CU1,800,000 \times CU300,000$) allocated to Formulation Y. When Formulation X is transferred, the University recognizes as revenue the CU133,000 ($CU800,000 \div CU1,800,000 \times CU300,000$) 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 IPSAS 47, the University recognizes as revenue the CU111,000 ($CU1,000,000 \div CU1,800,000 \times CU200,000$) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied compliance obligation). The University recognizes a binding arrangement liability for the CU89,000 ($CU800,000 \div$

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 IPSAS 47 on assessing binding arrangements which include the provision of goods or services to third-party beneficiaries and paragraph AG110 of 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 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 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 labor 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 + labor) × 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: $CU100,000 \times CU75,000 \div CU110,000 = CU68,182$ or CU454.55 per dose

Vaccine B: $CU100,000 \times CU35,000 \div CU110,000 = CU31,818$ or CU90.91 per dose

IE205. Based on the above, the Clinic would recognize 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 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 program 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 program 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 IPSAS 47, its compliance obligation is to use resources internally for goods or services to run its vaccination program. 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 recognizes revenue as eligible expenditures are incurred.

Principal versus Agent Considerations

IE208. Examples 36–38 illustrate the requirements in paragraphs AG117–AG125 of IPSAS 47 on principal versus agent considerations.

Example 36 – Promise to Provide Goods or Services (Entity is a Principal)

IE209. A shared maintenance services agency (the Agency) enters into a binding arrangement with the Department of Social Welfare (the Department) to provide office maintenance services on the Department's properties. The Agency and the Department define and agree on the scope of the maintenance services and negotiate the price. The Agency is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Agency invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE210. The Agency regularly engages third-party service providers to provide maintenance services to its purchasers. When the Agency obtains a binding arrangement from a purchaser, the Agency 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 Agency's binding arrangements with purchasers. However, the Agency is obligated to pay the service provider even if the Department fails to pay.

- IE211. To determine whether the Agency is a principal or an agent, the Agency 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 Agency 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 Agency 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 Agency 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 Agency 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 Agency has not agreed to provide. Therefore, the right to office maintenance services obtained by the Agency from the service provider is not the specified good or service in its binding arrangement with the Department.
- IE213. The Agency concludes that it controls the specified services before they are provided to the Department. The Agency 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 Agency's binding arrangement with the service provider give the Agency the ability to direct the service provider to provide the specified services on the Agency's behalf (see paragraph AG120(b)). In addition, the Agency concludes that the following indicators in paragraph AG123 of IPSAS 47 provide further evidence that the Agency controls the office maintenance services before they are provided to the Department:
- (a) The Agency is primarily responsible for satisfying the promise to provide office maintenance services. Although the Agency has hired a service provider to perform the services promised to the Department, it is the Agency itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Agency is responsible for satisfying the promise in the binding arrangement, regardless of whether the Agency performs the services itself or engages a third-party service provider to perform the services).
 - (b) The Agency has discretion in setting the price for the services to the Department.
- IE214. The Agency 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 Agency has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Agency 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 Agency is a principal in the transaction and recognizes 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 local government negotiates with hospitals to purchase vaccines for individual citizens in the jurisdiction at reduced rates compared with the price of vaccines provided directly by the hospitals to the individual citizens. The local government agrees to buy a specific number of vaccines and

must pay for those vaccines regardless of whether it is able to use them. The reduced rate paid by the local government for each vaccine purchased is negotiated and agreed in advance.

- IE217. The local government determines the prices at which the vaccines will be provided to the individual citizens. The local government provides the vaccines and collects the consideration from citizens when the vaccines are purchased.
- IE218. The local government also assists the individual citizens in resolving complaints with the service provided by the hospitals. However, each hospital is responsible for satisfying obligations associated with the vaccines, including remedies to a citizen for dissatisfaction with the service.
- IE219. To determine whether the local government's compliance obligation is to provide the specified goods or services itself (i.e., the local government is a principal) or to arrange for those goods or services to be provided by another party (i.e., the local government is an agent), the local government 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. The local government concludes that, with each vaccine that it commits itself to purchase from the hospitals, it obtains control of a right to the vaccine that the local government then transfers to an individual citizen, who in turn is one of the local government's purchasers (see paragraph AG120(a)). Consequently, the local government determines that the specified good or service to be provided to the individual citizen is that right to a unit of the vaccine that the local government controls. The local government observes that no other goods or services are promised in this arrangement to the individual citizens.
- IE221. The local government controls the right to each unit of vaccine before it transfers that specified right to one of its citizens because the local government has the ability to direct the use of that right by deciding whether to use the vaccine to fulfill a binding arrangement with a citizen and, if so, which binding arrangement it will fulfill. The local government also has the ability to obtain the remaining benefits or service potential from that right by either reselling the vaccine and obtaining all of the proceeds from the sale or, alternatively, providing the vaccine to another individual.
- IE222. The indicators in paragraphs AG123(b)–AG123(c) of IPSAS 47 also provide relevant evidence that the local government controls each specified right (to the vaccine) before it is transferred to the citizen. The local government has inventory risk with respect to the vaccine because the local government committed itself to obtaining the vaccine from the hospital before entering into a binding arrangement with a citizen to purchase the vaccine. This is because the local government is obligated to pay the hospital for that right regardless of whether it is able to obtain a purchaser to redirect the vaccine to or whether it can obtain a favorable price for the vaccine. The local government also establishes the price that the individual citizen will pay for the specified vaccine.
- IE223. Thus, the local government concludes that it is a principal in the transactions with the individual citizens. The local government recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the vaccines transferred to the citizens.

Example 38 – Arranging for the Provision of Goods or Services (Entity is an Agent)

- IE224. The Department of Health (the Department) provides vouchers that entitle qualifying individuals (the patients) to subsidized vaccination services at specified clinics. The sales price of the voucher provides the patient with a significant discount (i.e., a subsidy) when compared with the normal

prices of the vaccination services (for example, a patient pays CU10 for a voucher that entitles the patient to a vaccine at a clinic that would otherwise cost CU20). The Department 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. The Department provides the vouchers through its website and the vouchers are non-refundable.

- IE225. The Department 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, the Department is entitled to 30 percent of the voucher price when it provides the voucher.
- IE226. The Department also assists the patients in resolving complaints about the vaccination services and has a patient satisfaction program. However, the clinics are responsible for satisfying obligations associated with the voucher, including remedies to a patient for dissatisfaction with the vaccination.
- IE227. To determine whether the Department is a principal or an agent, the Department 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. The Department does not engage the clinics to provide vaccinations to patients on the Department's behalf as described in the indicator in paragraph AG123(a) of IPSAS 47. Therefore, the Department observes that the specified service to be provided to the patient is the right to a vaccination (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. The Department also observes that no other goods or services (other than the vouchers) are promised to the patients.
- IE229. The Department concludes that it does not control the voucher (right to a vaccination) at any time. In reaching this conclusion, the Department 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, the Department 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) The Department neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. The Department also has no responsibility to accept any returned vouchers. Therefore, the Department does not have inventory risk with respect to the vouchers as described in the indicator in paragraph AG123(b) of IPSAS 47.
- IE230. Thus, the Department concludes that it is an agent with respect to the vouchers. The Department recognizes revenue in the net amount of consideration to which the Department will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' vaccination 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 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 public 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 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 recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG136 of IPSAS 47.

Other Assets from Revenue Transactions with Binding Arrangement Costs

- IE235. Example 40 illustrates the requirements in paragraphs 152–155 of IPSAS 47 on costs to fulfill a binding arrangement and paragraphs 156–161 of IPSAS 47 on amortization 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 local government’s information technology data center 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 local government’s systems. That platform is not transferred to the local government but will be used to deliver services to the local government.
- IE237. The initial costs incurred to set up the technology platform are as follows:

	CU
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

- IE238. The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the local government. The Agency accounts for the initial setup costs as follows:
- (a) Hardware costs—accounted for in accordance with IPSAS 45.
 - (b) Software costs—accounted for in accordance with IPSAS 31.

- (c) Costs of the design, migration and testing of the data center—assessed in accordance with paragraph 152 of IPSAS 47 to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized 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 center.

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 local government. Although the costs for these two employees are incurred as part of providing the service to the local government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph 152(b) of IPSAS 47). Therefore, the costs do not meet the criteria in paragraph 152 of IPSAS 47 and cannot be recognized as an asset using IPSAS 47. In accordance with paragraph 155, the Agency recognizes the payroll expense for these two employees when incurred.

Presentation

Display

IE240. Examples 41–43 illustrate the requirements in paragraphs 162–166 of 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 January 1, 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on March 31, 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance on January 31, 20X9. The government entity pays the consideration on March 1, 20X9. The Agency transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

- (a) The Agency receives cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

- (b) The Agency satisfies the compliance obligation on March 31, 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 January 31, 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:

REVENUE

- (a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a receivable because it has an unconditional and enforceable right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

- (a) The Agency receives the cash on March 1, 20X9:

Cash	CU1,000	
Receivable		CU1,000

- (b) The Agency satisfies the compliance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE243. If the Agency issued the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the Receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

Example 42 – Binding Arrangement Asset Recognized for the Entity’s Performance

IE244. On January 1, 20X8, a government shared services IT agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a small 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 recognizes 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 recognize the unconditional right to consideration:

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

Example 43 – Receivable Recognized for the Entity’s Performance

IE248. A government hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on January 1, 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 recognizes the following:

Receivable	CU15,000 ¹⁵	
Revenue		CU12,500 ¹⁶
Refund Liability (Binding Arrangement Liability)		CU2,500

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

Disclosure

IE252. Examples 44–50 illustrate the requirements in paragraphs 167–193 of IPSAS 47 on disclosures. In addition, the following requirements are illustrated in these examples:

- (a) Paragraphs 175–176 of IPSAS 47 on services in-kind (Examples 44–45);
- (b) Paragraphs 179–180 of IPSAS 47 on the disaggregation of revenue disclosure (Example 47);
- (c) Paragraphs 185–187 of IPSAS 47 for the disclosure of transaction consideration allocated to the remaining compliance obligations (Examples 48–49);
- (d) Paragraph 120 of IPSAS 47 on constraining estimates of variable consideration (Example 48);
- (e) Paragraph AG90 of IPSAS 47 on methods for measuring progress towards complete satisfaction of a compliance obligation (Example 48); and
- (f) Paragraph 171 of 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).

¹⁵ CU150 per examinations × 100 examinations

¹⁶ CU125 transaction consideration per examinations × 100 examinations

Example 44 – Disclosure of Services In-kind not Recognized

- IE253. A public hospital’s accounting policies are to recognize 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 organized program. The principal aim of the program 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 program. 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 analyzes 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 recognize the services in-kind provided by the volunteers. In accordance with paragraphs 175–176 of IPSAS 47, the hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 45 – Disclosures Made in the Financial Statements of Government A

- IE255. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSAS for the first time. It makes the following disclosures in its financial statements:

Statement of Financial Performance		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Transactions without Binding Arrangements		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX

REVENUE

Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		
Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers Receivable from Other Governments (note 7)	X	X
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities Recognized Under Transfer Arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Transactions without Binding Arrangements

1. Assets and revenue arising from taxation transactions are recognized as revenue from transactions without binding arrangements in accordance with the requirements in paragraphs 18–55 of IPSAS 47. However, the Government takes advantage of the transitional provisions in IPSAS 33 in respect of income taxes and estate taxes.

Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).

REVENUE

2. Assets and revenue arising from transfer transactions are recognized in the period in which the rights in a transfer arrangement are enforceable, except for some services in-kind. The Government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.
3. Where a transfer is subject to an enforceable obligation that, if unsatisfied, requires the return of the transferred resources, the Government recognizes a liability until the requirements are satisfied.

Basis of Measurement of Major Classes of Revenue Transactions

Taxes

4. Income tax revenue is measured at the nominal value of cash and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accrual basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accrual basis for the reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.
5. Assets and revenue accruing from goods and services tax are initially measured at the transaction consideration of assets accruing to the Government during the reporting period, principally cash and cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the Government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. An estate tax of 40 percent is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the transaction consideration as at the acquisition date of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognized as a consequence of a transfer are measured at the transaction consideration of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their transaction consideration, which is determined by reference to observable market data or by independent appraisal by a member of the valuation profession. Receivables are recognized when the entity has an enforceable right in a transfer arrangement but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of IPSAS 33, to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The Government estimates that it will be able to reliably measure income tax on an accrual basis using the model for the reporting period ending December 31, 20X4.
9. In respect of estate taxes, due to current high levels of non-compliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The Government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to build a public hospital. As at December 31, the Government had received a cash payment; however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to Enforceable Obligations

11. Land with a fair value of CUXX,000 was received as part of a binding arrangement in 20X2. The binding arrangement included a compliance obligation which requires the entity to use the land for public health purposes and cannot be sold for 50 years.
12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government. The painting was received as part of an arrangement that included an enforceable obligation (but did not include an enforceable right). Under the agreement, the entity cannot sell the painting for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either as cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.
14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on the condition that it will be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the Government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.

16. Hospitals, schools, and art galleries controlled by the Government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured, as there are no equivalent paid positions available in the local market and, in the absence of volunteers, the services would not be provided. The Government does not recognize these services in the statements of financial position or financial performance.

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 recognize an asset for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of 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 December 31, 20X2:

On March 15, 20X2, the local government entered into a binding arrangement with the national 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 recognized an asset in respect of the CU5 million to be received in 20X3 because, as at December 31, 20X2, the appropriation process for this amount had not been completed and therefore the local government does not have an enforceable right to the funds.

Example 47 – Disaggregation of Revenue—Quantitative Disclosure

IE258. A State Government reports the following segments: emergency services, public transit and energy, in accordance with IPSAS 18, *Segment Reporting*. When the State Government prepares its stakeholder presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods or services transferred at a point in time or services transferred over time).

IE259. The State Government determines that the categories used in the stakeholder presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 179 of IPSAS 47, which is to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product or service line and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the emergency services, public transit and energy segments, in accordance with paragraph 180 of IPSAS 47.

REVENUE

Segments	Emergency Services	Public Transit	Energy	Total
	CU (million)	CU (million)	CU (million)	CU (million)
<u>Primary geographical markets</u>				
Region A	990	2,250	4,000	7,240
Region B	300	1,010	1,000	2,310
Region C	700	–	1,250	1,950
	1,990	3,260	6,250	11,500
<u>Major goods/service lines</u>				
Healthcare services – clinic	600	–	–	600
Healthcare services – hospital	990	–	–	990
Medical supplies	400	–	–	400
Public transit – bus	–	500	–	500
Public transit – rail	–	2,760	–	2,760
Solar panels	–	–	1,000	1,000
Power plant	–	–	5,250	5,250
	1,990	3,260	6,250	11,500
<u>Timing of revenue recognition</u>				
Goods transferred at a point in time	1,000	3,260	–	4,260
Services transferred over time	990	–	6,250	7,240
	1,990	3,260	6,250	11,500

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

IE260. On June 30, 20X7, a centralized 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 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 December 31, 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 IPSAS 47.

REVENUE

Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph 186(b) of 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 recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize 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 recognized on this binding arrangement as of December 31, 20X7	4,800 ¹⁷	2,400 ¹⁸	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 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 recognized 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 recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize 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:

¹⁷ CU4,800 = CU400 × 12 months.

¹⁸ CU2,400 = CU400 × 6 months

REVENUE

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognized on this binding arrangement as of December 31, 20X7	1,575 ¹⁹	788 ²⁰	2,363

IE267. In addition, in accordance with paragraph 187 of 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 January 1, 20X2, the Department of Public Works (Public Works) 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 Public Works satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of revenue. Public Works 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 December 31, 20X2, Public Works discloses the amount of the transaction consideration that has not yet been recognized as revenue in its disclosure of the transaction consideration allocated to the remaining unsatisfied portion of the compliance obligation. Public Works also discloses an explanation of when it expects to recognize 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 Public Works is uncertain about the timing of revenue recognition, Public Works discloses this information qualitatively as follows, in accordance with paragraph 185 of IPSAS 47:

As of December 31, 20X2, the aggregate amount of the transaction consideration allocated to the remaining compliance obligation is CU6.8 million and the entity will recognize 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 utility operates a number of power plants and provides electricity to residential households. The energy sector in the jurisdiction is highly regulated, and under its Power and Energy Act, all utility companies which provide electricity to residential households are required to provide electricity regardless of the households' ability to pay. Typically, a household would apply to the utility to connect electricity to their location. As part of the connection process, the household

¹⁹ Transaction consideration = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

²⁰ CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

would enter into a power purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

- IE271. The power purchase agreement is considered a binding arrangement with compliance obligations, as the utility has agreed to provide a distinct good (electricity) 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 electricity even if a household is in default – i.e., the utility is compelled to satisfy the compliance obligation to provide electricity regardless of a household's ability to pay.
- IE272. During the year, the utility provided electricity that would have resulted in total revenue of CU100 million if revenue had been recognized at the utility's standard rates for 100 percent of the electricity 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 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 electricity. As a result, the utility recognizes 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 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 Power and Energy Act, which requires all utilities to provide electricity to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its power grid and to continue to provide electricity even in the event of non-payment.

During the year, the utility provided and billed CU100 million of electricity to the households, but only recognized 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 recognized as revenue.

Application of Principles to Specific Transactions

Capital Transfers

- IE275. Example 51 illustrates the application of paragraphs AG140–AG142 of 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 recognizes 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 derecognized from liabilities and recognized 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 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 recognizes a liability of CU22 million upon receipt of the funds. Entity R then derecognizes the CU22 million liability (and recognizes 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 recognize a CU10 million liability upon initial receipt of the funds. After construction has been completed, Entity R derecognizes CU1 million liability per year as it operates the building as a public library and recognizes 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 recognized as a liability upon receipt. Subsequently, the CU22 million liability will be derecognized and recognized as earned revenue as the building is constructed, and the CU10 million liability will be derecognized and recognized as earned revenue over the 10-year operating period.
- IE286. The additional CU5 million penalty is not recognized by Entity R because it is a contingent liability (as defined in IPSAS 19) that is not a present obligation (as described in Chapter 5, *Elements in Financial Statements of the 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 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 subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization 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 recognizes 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 derecognizes the liability and recognizes 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 network (Public Health) enters into a binding arrangement on January 1, 20X2 with the regional government (Government) and agrees to the following:

- (a) The Government will transfer ownership of an X-ray machine to Public Health upon finalization 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 the Government; 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 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 IPSAS 47 and recognizes and measures the asset at its deemed cost at the acquisition date in accordance with IPSAS 45. The entity also recognizes an equivalent liability, which is derecognized (and earned revenue is recognized) over the 10 years as the compliance obligation is satisfied over time. Public Health would also amortize the X-ray machine over its remaining useful life of 15 years in accordance with IPSAS 45.

Pledges

Example 53 – Television Appeal for Public Hospital

IE294. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (the Hospital). The annual reporting date of the Hospital is June 30. 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 recognize 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 recognize the asset or the related revenue until the donation is binding on the donor in accordance with paragraph AG150 of 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

REVENUE

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 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 IPSAS 41.

IE299. The journal entries are illustrated below:

1. On initial recognition, the resource recipient will recognize the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the resource recipient will recognize 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 IPSAS 41).				

3. Year 2: the resource recipient will recognize the following (assuming that the resource recipient subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(3/10 schools built x CU1,784,550 – CU178,455 already recognized)				

4. Year 3: the resource recipient will recognize the following:				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(5/10 schools built x CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the resource recipient will recognize 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				

REVENUE

recipient would recognize 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 national government (Government N) 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 N 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 N, Government L derecognizes the liability for the loan and recognizes revenue in the statement of financial performance in the reporting period in which the liability is derecognized in accordance with paragraphs AG155–AG158 of IPSAS 47.

Bequests

Example 56 – Proposed Bequest

- IE302. A 25-year-old recent graduate (the Graduate) of a public university names the public 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 recognize 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 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 Defense Force Agency of Government A (Defense 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. Defense 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 IPSAS 47. Upon receipt, Aid Agency determines that IPSAS 45 is the relevant IPSAS, and the tents are held for operational capacity. Aid Agency determines that the current operational value for this obsolete version of the tent is CU50. Therefore, Aid Agency recognizes revenue at the value of CU50 per unit received instead of the CU100 as stated in the agreement.

Example 58 – External Assistance

- IE306. National Government A (Government A) enters into an external assistance agreement with National Government B (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 recognize 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 recognize a liability, which is derecognized (and earned revenue is recognized) as the compliance obligation is satisfied.

Comparison with IFRS 15

The binding arrangement accounting requirements in IPSAS 47, *Revenue* are drawn primarily from IFRS 15, *Revenue from Contracts with Customers* (issued in 2014, including amendments up to March 2018). The main differences between IPSAS 47 and IFRS 15 are as follows:

- IPSAS 47 applies to all revenue transactions in the public sector, which may arise from transactions with or without binding arrangements. IFRS 15 applies to a subset of binding arrangements, specifically contracts to deliver goods or services to customers.
- IPSAS 47 explicitly requires an entity to determine whether the revenue arises from a transaction with or without a binding arrangement. IFRS 15 does not explicitly require an entity to determine whether the revenue arises from a contract.
- 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). 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 IPSAS 47 is broader than performance obligations in IFRS 15. As a result, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* is not applicable for public sector organizations because IPSAS 47 includes principles to account for capital transfers and other transfers arising from binding arrangements.
- 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. IFRS 15 does not require this disclosure.
- IPSAS 47 uses different terminology from IFRS 15. For example, 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 GFS

In developing IPSAS 47, *Revenue*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 47 and GFS will depend on the facts and circumstances of the revenue transactions.
- Both IPSAS 47 and GFS require an entity to account for revenue on an accrual basis. However, IPSAS 47 uses accounting terminology whereas GFS uses economic terminology, which may lead to the same accounting outcome.
- IPSAS 47 distinguishes between revenue arising from transactions with or without a binding arrangement. GFS distinguishes revenue transactions by their characteristics, including whether it is a market transaction.
- IPSAS 47 considers the enforceability of the entity's individual rights and/or obligations in order to identify whether the revenue arises from a transaction with a binding arrangement. GFS considers different characteristics to identify the type of revenue, including whether it is a market transaction.
- Under IPSAS 47, an entity recognizes revenue when (or as) it satisfies any enforceable obligations associated with an inflow (or right to an inflow) of resources, as specified in the arrangement. Under GFS, the timing of revenue recognition is based on the type of revenue.
- IPSAS 47 includes disclosure requirements that are not present in GFS.

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Published by:



IPSASB

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Final Pronouncement
May 2023

IPSAS®

International Public Sector Accounting Standard®

IPSAS 48, *Transfer Expenses*

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IPSAS 48, Transfer Expenses

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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

3. **An entity that prepares and presents financial statements under the accrual basis of accounting 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 IPSAS 43, *Leases*;**
 - (b) **Contributions from, and distributions to, owners;**
 - (c) **Service concession arrangements as defined in IPSAS 32, *Service Concession Arrangements: Grantor*;**
 - (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**
 - (e) **Financial instruments, including concessionary loans, as defined in IPSAS 41, *Financial Instruments*;**
 - (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**
 - (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts);**
 - (h) **Share-based payments (see the international or national accounting standard dealing with share-based payments); and**
 - (i) **Income taxes (see the international or national accounting standard dealing with income taxes).**
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 recognize and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18-43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

- (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this Standard to the entirety of the binding arrangement.

Paragraphs AG2-AG3 provide additional guidance on the scope of this Standard.

Definitions

6. The following terms are used in this Standard with the meanings specified:

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 resources¹ 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 recognized 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 recognized for the existence of one or more transfer rights arising from a binding arrangement.

7. The following terms are defined in IPSAS 47, *Revenue*:

- (a) Binding arrangement;
- (b) Compliance obligation;
- (c) Taxes; and

¹ In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

(d) Third-party beneficiary.

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

Expenses are defined in IPSAS 1, *Presentation of Financial Statements*.

Paragraphs AG4-AG9 provide additional guidance on the definitions in this Standard.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *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 derecognized when (or as) the entity's rights from the transfer arrangement are extinguished.² For transfers which do not result in the recognition of an asset, a transfer expense is recognized:**
- (a) When the entity loses control of the transferred resources; or
 - (b) When the entity has incurred an obligation to transfer resources and recognizes 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.

² The asset may be derecognized at a point in time or over a period of time depending on the terms of the arrangement.

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 recognize any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.
16. A binding arrangement is wholly unsatisfied if both of the following criteria are met:
 - (a) The entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and
 - (b) The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

Paragraphs AG11-AG29 provide additional guidance on enforceability and binding arrangements.

Combination of Binding Arrangements

17. An entity shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:
 - (a) The binding arrangements are negotiated as a package with a single objective;
 - (b) The amount of resources to be transferred in one binding arrangement depends on the consideration or performance of the other binding arrangement; or
 - (c) The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right in accordance with paragraph 21.

Transfer Expenses from Transactions without Binding Arrangements

Recognition

18. **For transfer expenses without binding arrangements, an entity shall recognize 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 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 recognized provision; or**
- (b) **If a constructive or legal obligation to transfer resources does not exist, 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 derecognizes 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 recognized in the situation described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.**
- 20. **When an entity recognizes an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.**

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

- 21. **At the inception of a binding arrangement to transfer resources, an entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:**
 - (a) **A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or**
 - (b) **A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.**

Paragraphs AG31-AG34 provide additional guidance on identifying transfer rights.

Recognition of Transfer Expenses

- 22. **When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognized, and a transfer right asset is recognized 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 recognized 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 recognize expenses:**

- (a) When (or as) a transfer right asset is derecognized; or**
- (b) When a transfer obligation liability is recognized.**

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 derecognize the transfer right asset and recognize a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with 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 recognized 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 recognized shall be recognized 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 recognized 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 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 IPSAS 19.

Allocating the Transfer Consideration to Transfer Rights

38. **When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.**

39. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:
- (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or
 - (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).³

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 recognized 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 IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Presentation

Display

44. **For transfer expenses from transactions without binding arrangement, if an entity recognizes 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 IPSAS 1.**

³ This guidance is also applicable to a specific portion of variable consideration that can or cannot be identified with one or more transfer rights.

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 IPSAS 1.
47. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity presents the financial asset in accordance with the requirements in 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 IPSAS 1.
49. As required by paragraph 109 of IPSAS 1, an entity shall present, either on the face of the statement of financial performance 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 IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programs, 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 programs or purposes for which the transfers were made.

Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

Disclosure

50. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:**
 - (a) **Transfer expenses and related balances (see paragraphs 53-58);**
 - (b) **Transfer arrangements (see paragraphs 59-60); and**
 - (c) **The significant judgments, and changes in the judgments, 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 IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.
52. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

Transfer Expenses and Related Balances

53. As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by IPSAS 1. This analysis can be presented on the face of the statement of financial performance or disclosed in the notes.

Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

54. In addition to the analysis of expenses, an entity shall provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to enable users to understand how the entity's resources are spent on its programs, activities, and services.
55. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity applies the disclosure requirements for financial assets from IPSAS 30, *Financial Instruments: Disclosures*.
56. A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortized cost. Therefore, the disclosure requirements from IPSAS 30 for payables are applicable to such liabilities.
57. If a liability has been recognized for variable consideration (see paragraphs 35-37), an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.
58. For transfers from transactions without binding arrangements, when a liability is recognized for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

Transfer Arrangements

59. An entity shall disclose information about its transfer binding arrangements, including a description of the following:
- (a) The purpose of the transfer binding arrangements;
 - (b) Significant payment terms;
 - (c) The nature of the resources that have been or will be transferred; and
 - (d) Significant risks and uncertainties relating to the realization of transfer rights 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, an entity shall disclose the following:
- (a) The purpose of the transfer arrangements;
 - (b) Significant payment terms, if any; and
 - (c) The nature of the resources that have been or will be transferred.

The above information can be aggregated for arrangements that are of a similar nature.

Significant Judgments, and Changes in Judgments, Made Regarding the Recognition of Transfer Right Assets from Transfer Expense Transactions

61. An entity shall disclose the significant judgments, and changes in judgments, 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.

Effective Date and Transition

Effective Date

62. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2026, it shall disclose that fact and shall apply IPSAS 47, *Revenue*, at the same time.**
63. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

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) **Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

Application Guidance

This Appendix is an integral part of IPSAS 48.

AG1. This application guidance is organized 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: Display 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.

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 organization, or an individual) 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 recognized 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 organization, an individual or another entity) that receives a good, service, or other asset from the transfer provider without directly providing any good, service, or other asset to that entity. While the transfer recipient does not provide any good or service to the entity, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the entity.

Transfer Right and Transfer Right Asset

AG9. An entity's transfer right is the enforceable right to have the transfer recipient satisfy its obligations and arises where the entity has transferred resources to the transfer recipient in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations within the binding arrangement. A transfer right asset is not a good, service, or other asset to be directly received by the entity in return for transferring resources to the transfer recipient because:

- (a) A transfer right asset is not a good or service;
- (b) The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity.
- (c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.

Identifying the Transfer Expense Transaction (paragraphs 8-9)

AG10. This Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this Standard to a portfolio of transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Binding Arrangements and Enforceability (paragraphs 10-16)

Binding Arrangement

AG11. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement.

- AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.
- AG13. In accordance with paragraph 11, the assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.
- AG14. Binding arrangements confer both rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient satisfy its obligations. This Standard refers to these rights as transfer rights.

Enforceability

- AG15. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG16. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the arrangement.
- AG17. In the public sector, an arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:
- (a) Distinct rights and obligations for each involved party; and

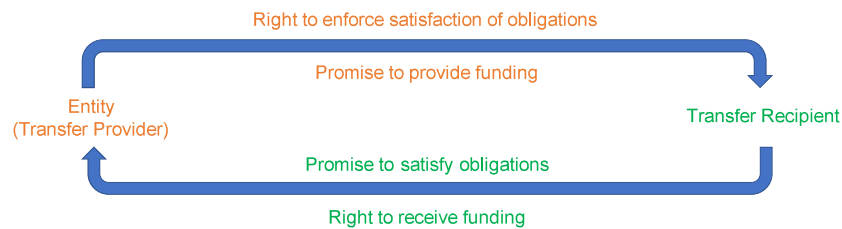
- (b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.
- AG18. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.
- AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
- AG20. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the agreed-upon obligations in the arrangement.
- AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.
- AG22. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.
- AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.
- AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment 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 IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Parties in a Binding Arrangement

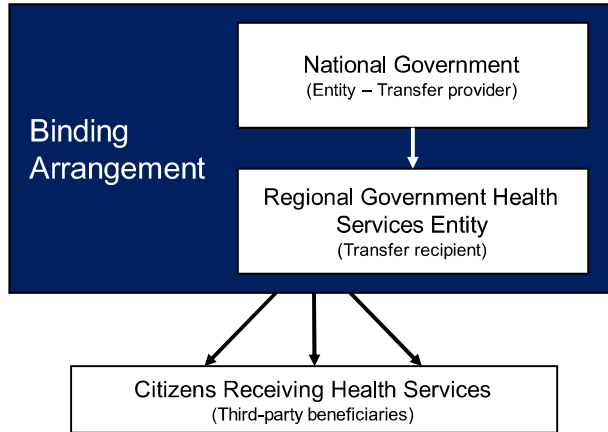
AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and 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 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 IPSAS 41, *Financial Instruments*; and
- (c) When the transferred resources are derecognized, 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 recognized 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 recognize 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 recognized 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 recognize 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 judgment.

- AG41. In some situations, a transfer right asset may be derecognized 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 derecognized 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 recognized 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 recognizes a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognized 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 recognized, 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 recognized 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 recognized 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: Display 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 financial performance 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 IPSAS 1, *Presentation of Financial Statements*, to enable users to understand how the entity's resources are spent on its programs, activities and services.

Application of Principles to Specific Transactions

Capital Transfers

- AG53. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.
- AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21-25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22-25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the

transfer recipient, upon the transfer of resources, the entity typically recognizes a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

- AG55. Some binding arrangements for capital transfers may include a transfer right for the acquisition or construction of a non-financial asset, which meets the definition of a capital transfer, and separate transfer rights for the operation of the asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset once constructed or acquired.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 4, The Effects of Changes in Foreign Exchange Rates

Paragraph 17 is amended, and paragraph 71J 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 policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; lease liabilities; and cash dividends or similar distributions that are recognized 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; transfer right assets; goodwill; intangible assets; inventories; property, plant, and equipment; right-of-use assets; and provisions that are to be settled by the delivery of a non-monetary asset.

...

Effective Date

...

- 71J. Paragraph 17 was amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 48 at the same time.

...

Amendments to IPSAS 12, *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 51J 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. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. ...

...

Measurement of Inventories

...

17. Inventories shall be measured at the lower of cost and current replacement cost where they are held for:
- (a) Distribution at no charge (a transfer expense) or for a nominal charge; or
 - (b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge.

...

Distributing Goods at No Charge or for a Nominal Charge

43. A public sector 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 a government 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 recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognized ~~when the goods are distributed or the related service is rendered~~ in accordance with IPSAS 48, *Transfer Expenses*. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

...

Effective Date

...

- 51J. Paragraphs 11, 17, 43 and 44 were amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity

applies the amendments for a period beginning before January 1, 2026 it shall disclose that fact and apply IPSAS 48 at the same time.

...

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

Paragraphs 41A, 43A, 43B and 154O are added. New text is underlined, and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

...

41A. To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allow a three year transitional relief period to not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses in terms of IPSAS 48, *Transfer Expenses*.

...

Recognition and/or Measurement of Transfer Expenses

43A. A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis.

43B. The transitional provision in paragraph 43A is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring transfer expenses in accordance with IPSAS 48, *Transfer Expenses*, during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of transfer expenses that do not comply with the provisions of IPSAS 48. The transitional provision in paragraph 43A allows a first-time adopter to apply IPSAS 48 incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure transfer expenses without binding arrangements in accordance with IPSAS 48 from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for recognizing and measuring transfer expenses with binding arrangements.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

...

IPSAS 48, Transfer Expenses

IG89A. If a first-time adopter applies IPSAS 48 on a retrospective basis and has transferred amounts that do not yet qualify for recognition as an expense (for example, the transfer of resources where the related transfer right has not yet been extinguished), the first-time adopter recognizes the amounts transferred as an asset in its opening statement of financial position and measures that asset at the amount transferred. It shall derecognize the asset and recognize the expense in its statement of financial performance when the recognition criteria in IPSAS 48 are met.

...

Summary of Transitional Exemptions and Provisions Included in IPSAS 33, First-time Adoption of Accrual Basis IPSASs

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs.

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
...								
<u>IPSAS 48, Transfer Expenses</u>			✓ All transfer expenses not recognized under previous basis of accounting	✓ All transfer expenses recognized under previous basis of accounting	✓ To extent that 3-year relief period was adopted for assets and/or liabilities			

...

Effective Date

154O. Paragraphs 41A, 43A and 43B were added by IPSAS 48, Transfer Expenses, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026 it shall disclose that fact and apply IPSAS 48 at the same time.

...

Amendments to IPSAS 40, Public Sector 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 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, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. ~~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 recognize an asset in respect of the grant, but accounted for the full CU700 as an expense.~~ Upon the transfer of funds, COA recognized 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 derecognizes CU350 of the transfer right asset and recognizes 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 recognize a liability no for the CU250, but instead recognizes this amount in the 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, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its performance obligation, in accordance with 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 recognize an asset in respect of the grant, but accounted for the full CU800 as an expense.~~ Upon the transfer of funds, AE recognized 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 derecognizes CU200 of the transfer right asset and recognizes the amount as a transfer expense.

IE265. In this example, ~~AE calculates a gain of CU600. The gain is calculated as the liability is assumed that is derecognized 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 course.

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

...

Amendments to IPSAS 42, Social Benefits

Paragraph IG2 is amended. New text is underlined, and deleted text is struck through.

...

This guidance accompanies, but is not part of, IPSAS 42

...

Scope of IPSAS 42

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

	<u>Transfer Expenses (IPSAS 48)</u>	Non-Exchange Expenses Project			Social Benefits (IPSAS 42)		Other IPSAS/IFRS	
Category	Grants, Contributions and Other Transfers Expenses	Emergency Relief	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	Grants/Transfers to other public sector entities Grants/Transfers to charities	Emergency relief Planning and preparation activities	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Type Transactions?	<u>Non-Exchange</u>	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	<u>Sometimes</u>	Sometimes	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	<u>Sometimes</u>	Sometimes	No	Sometimes	Yes	Yes	No	No

IPSAS 48, TRANSFER EXPENSES

Mitigates effect of social risks?	<u>Sometimes</u>	No	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	<u>Sometimes</u>	No	Yes	Yes	Yes	No	No	No


 Scope of Social Benefits in GFS

Basis for Conclusions

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

Introduction

- BC1. 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 expenditures.
- BC2. In March 2015, the IPSASB approved a project brief to develop the requirements for accounting for non-exchange expenses, other than social benefits. The project brief acknowledged that there has been little guidance on non-exchange transactions from the provider's perspective and that this area was a gap in the IPSASB's literature.
- BC3. The IPSASB undertook a phased program of work to address non-exchange transactions from the provider's perspective, beginning with IPSAS 42, *Social Benefits*, which was issued in January 2019, then continuing with *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020.
- BC4. For the remaining non-exchange expenses, the IPSASB released a Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017 to seek constituent views on potential recognition and measurement for both revenue and non-exchange expenses. The CP:
- (a) Proposed replacing the then-current IPSAS dealing with revenue from exchange transactions and construction contracts with an IPSAS based on IFRS 15, *Revenue from Contracts with Customers*;
 - (b) Proposed updating IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to address issues identified by users; and
 - (c) Considered recognition approaches for significant non-exchange expense transactions.

Development of Exposure Draft 72, Transfer Expenses (ED 72)

- BC5. Based on constituents' feedback on the CP, the IPSASB developed ED 72. The ED:
- (a) Proposed a definition for transfer expense;
 - (b) Proposed the classification of transfer expenses based on whether the transfer recipient has at least one performance obligation; and
 - (c) Proposed accounting and disclosure requirements for:
 - (i) Transfer expenses without performance obligations; and
 - (ii) Transfer expenses with performance obligations, which were largely based on application of the Public Sector Performance Obligation Approach (PSPOA) and mirrored the accounting for revenue with performance obligations.
- BC6. In February 2020, the IPSASB published ED 72, together with ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. The three EDs were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 72

BC7. The IPSASB received a broad and diverse set of comment letters in response to ED 72. While the feedback indicated that some constituents supported the proposals, the following significant concerns were also identified:

- (a) The distinction between transfer expenses with and without performance obligations appeared to be unnecessary or artificial, as there was no economic difference between these transactions from a transfer provider's perspective;
- (b) The distinction based on performance obligations also did not reflect the way transfer expense transactions were carried out in the public sector, as under ED 72, only transfer expenses where the transfer recipient had at least one performance obligation could result in the recognition of an asset. Many respondents identified examples of transactions where they retained control over the transferred resources (and thus did not immediately derecognize the asset), even if the transfer did not involve performance obligations;
- (c) The proposals in ED 72 required a transfer provider to consider the transaction from the transfer recipient's perspective and assumed that the transfer provider has access to information regarding the transfer recipient's performance obligations. Many respondents noted that this assumption is not realistic and will lead to practical difficulties in applying the proposed guidance;
- (d) In ED 72, only transfer expenses with performance obligations could result in the recognition of an asset. Respondents noted that this accounting model did not necessarily achieve consistency in accounting principles, particularly with asset recognition principles in The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework); and
- (e) The majority of respondents commented that because the proposed disclosures in ED 72 were based on the disclosure requirements from IFRS 15, they did not reflect the nature of transfer expenses, which have different characteristics and risks. Some respondents noted that the proposed disclosures would also impose an administrative burden that is disproportionate to any benefits for users.

Discussion with the IPSASB Consultative Advisory Group (CAG)

BC8. The IPSASB consulted the CAG at its December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 72

BC9. In light of the responses to ED 72, the IPSASB decided not to proceed with the proposals in ED 72 and to revisit the proposed accounting and disclosures for transfer expenses to:

- (a) Use the transfer provider's perspective when developing accounting and disclosure requirements;
- (b) Move away from the PSPOA and the distinction between transfer expenses with and without performance obligations;

- (c) Focus on whether the transfer results in the recognition of an asset when developing accounting requirements;
- (d) Use binding arrangements as a fundamental concept for transfer expense accounting;
- (e) Where appropriate, simplify presentation and disclosure requirements; and
- (f) Revise the illustrative examples to reflect the above changes in the proposed accounting and disclosures for transfer expenses.

Scope (paragraphs 3-5)

- BC10. When the IPSASB developed ED 72, the Board had noted that the main group of non-exchange expense transactions which were not already addressed by IPSAS 41, *Financial Instruments*, IPSAS 42 or the amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, consisted of grants, contributions, and other transfers. The IPSASB noted at the time that this group of transactions was covered by the definition of ‘transfers’ in the statistical reporting frameworks and that aligning the scope of ED 72 with the definition of ‘transfers’ in the statistical reporting frameworks would be consistent with the IPSASB’s Policy Paper, *Process for Considering GFS Reporting Guidelines During Development of IPSASs*. As a result, the IPSASB agreed to align the scope of ED 72 with the definition of ‘transfers’ (see paragraph 6) in the statistical reporting frameworks. This scoping decision was retained in IPSAS 48, *Transfer Expenses*.
- BC11. The IPSASB also decided that contributions from owners and distributions to owners did not meet the definition of transfers and were consequently outside the scope of IPSAS 48.
- BC12. The IPSASB considered whether IPSAS 48 should explicitly state that onerous contracts are not applicable to transfer expenses and noted that when IPSAS 19 was developed from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the definition of ‘onerous contract’ was modified to explicitly refer to the exchange of assets or services. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that transfer expenses could not meet the definition of an ‘onerous contract’. Therefore, no explicit scope exclusion is required.

Definitions (paragraphs 6-7)

- BC13. As noted in paragraph BC10, the IPSASB had decided to align the definition of ‘transfer’ with the definition in the statistical reporting frameworks. The *Government Finance Statistics Manual 2014* (GFSM 2014) defines a transfer as follows:
- A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.*
- BC14. Having agreed to use the GFSM 2014 definition of ‘transfer’ as the basis for the scope of ED 72, the IPSASB had agreed to base the definition of ‘transfer expenses’ in ED 72 on the GFSM definition. The IPSASB had agreed to adopt the term ‘transfer expenses,’ as the term ‘transfers’ had previously been used in IPSAS 23, where the term ‘transfers’ referred to inflows (i.e., revenue) only. In IPSAS 23, the term ‘transfers’ also excluded taxes, and the IPSASB had agreed to exclude taxes from the definition of ‘transfer expenses’ for consistency.

- BC15. The definition of ‘transfer expense’ and the exclusion of taxes was retained in IPSAS 48, as the definition of ‘transfer’ in IPSAS 47, *Revenue*, also only referred to revenue and excluded taxes.
- BC16. As noted in paragraph BC9, the IPSASB decided to revisit the proposed accounting model for transfer expenses. Based on the revisions, as explained in paragraphs BC20-BC30, the IPSASB agreed to define the following terms in IPSAS 48:
- (a) Transfer obligation;
 - (b) Transfer obligation liability;
 - (c) Transfer right; and
 - (d) Transfer right asset.
- BC17. IPSAS 48 complements IPSAS 47 and relies on certain definitions in IPSAS 47 where possible (see paragraph 7). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to define the following additional terms in IPSAS 48:
- (a) Stand-alone consideration; and
 - (b) Transfer consideration.
- These definitions are based on the definitions of ‘stand-alone value’ and ‘transaction consideration’ in IPSAS 47.
- BC18. This Standard refers to the party providing resources in a transfer expense transaction as the ‘transfer provider’, while IPSAS 47 refers to the party providing resources in a revenue transaction as the ‘resource provider’. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.
- BC19. The IPSASB also considered the definition of ‘expenses’ in IPSAS 1, *Presentation of Financial Statements*, as well as the definition of ‘constructive obligation’ in IPSAS 19 and concluded that no changes were required. The IPSASB agreed to include cross-references to these definitions in IPSAS 48 (see paragraph 7 of IPSAS 48).

Identifying the Transfer Expense Transaction (paragraphs 8-9)

- BC20. Based on the decision to revisit the general accounting model for transfer expenses, the IPSASB decided that the key transfer expense accounting principle is whether the transaction results in the recognition of an asset by the entity. Transfer transactions which do not result in the recognition of an asset are generally recognized as a transfer expense when the entity loses control of the transferred resources or when the entity has incurred an obligation to transfer resources. The IPSASB also decided that when the entity has incurred an obligation to transfer resources, it recognizes a liability and a transfer expense.
- BC21. To operationalize the decisions in paragraph BC20, the IPSASB noted that whether the transaction arises from a binding arrangement provides inputs into the assessment of whether the asset recognition criteria is met and whether the entity has an obligation to transfer resources. Therefore, the IPSASB decided to move away from classification based on performance obligations and to

classify transfer expenses based on whether they arise from transactions with or without binding arrangements.

Binding Arrangements and Enforceability (paragraphs 10-17)

BC22. The decision to classify transfer expenses based on whether or not the transfer expense arises from a binding arrangement is consistent with the decision on how revenue should be categorized. As outlined in the Basis for Conclusions in IPSAS 47, the IPSASB clarified the impact of binding arrangements and enforceability in IPSAS 47 and agreed that these clarifications also apply to transfer expenses.

BC23. This decision had the following impacts on the development of IPSAS 48:

- (a) The definition of a 'binding arrangement' was carried over from IPSAS 47;
- (b) The guidance on how to determine if an arrangement is enforceable through legal or equivalent means by considering all relevant factors and whether the arrangement meets the definition of a binding arrangement was also carried over;
- (c) Enforceability is based on the entity's ability to enforce the terms of the binding arrangement, including imposing non-compliance requirements on parties that do not fulfill their agreed-upon obligations;
- (d) The assessment of enforceability for transfer expenses occurs at the inception of a binding arrangement and when a significant internal or external change indicates that there may be a change in enforceability;
- (e) In a binding arrangement, each party will have at least one enforceable right and one obligation;
- (f) For transfer expenses with binding arrangements, there is no initial recognition when none of the parties has started to satisfy its stated obligations under the binding arrangement;
- (g) Because an entity's right and obligation within a binding arrangement are directly linked and interdependent, when both the entity and transfer recipient begin to perform in accordance with the binding arrangement, the resulting transfer right assets and transfer obligation liabilities arising from the same binding arrangement are presented as a single asset or liability in the statement of financial position; and
- (h) Where a transfer expense arises from a transaction that is subject to an appropriation, the appropriation may limit the enforceability of the related arrangements and impact whether they are binding. The IPSASB noted that this conclusion results from the application of the principles on binding arrangements and enforceability, and therefore developed implementation guidance on how appropriations could impact transfer expense transactions.

Transfer Expenses from Transactions without Binding Arrangements (paragraphs 18-20)

BC24. The IPSASB decided that when a transfer expense arises from a transaction without a binding arrangement, there is no basis for the recognition of a transfer right asset from the transfer of resources. (That is, the recognition of a transfer right asset is only possible when a transfer arises from a binding arrangement—see paragraph BC27.) In these cases, the IPSASB decided that when

the transfer occurs and control of the asset is lost, the entity derecognizes the transferred asset and recognizes a transfer expense at the asset's carrying amount.

- BC25. The IPSASB noted that even when there is no binding arrangement, an entity may still have a one-way enforceable right which results in retaining control of the resources after they are transferred. In these cases, the entity would consider the principles in the Conceptual Framework and IPSAS 1, and whether it should recognize an asset. Because this asset's recognition is driven by the definition of an asset in IPSAS 1, the IPSASB decided to include implementation guidance on these situations, and no additional authoritative text is required.
- BC26. The IPSASB also noted that even when there is no binding arrangement, if facts and circumstances result in a legal or constructive obligation to transfer resources, the entity is required to recognize a liability in accordance with IPSAS 19. IPSAS 48 refers to this liability as a transfer obligation liability.

Transfer Expenses from Transactions with Binding Arrangements (paragraphs 21-43)

Recognition

- BC27. The IPSASB decided that when an entity begins to transfer resources as specified in a binding arrangement, the transfer results in a transfer right (i.e., the transfer provider's enforceable right to have the transfer recipient fulfill its obligations, or carry out the non-compliance requirements outlined in the binding arrangement) which meets the definition of an asset in the Conceptual Framework. This is because:
- (a) The transfer right embodies a resource (i.e., the right to direct how the transfer recipient is to use resources internally);
 - (b) The binding arrangement provides the transfer provider with control of the transfer right; and
 - (c) This control arises from a past event (i.e., the transfer of resources within the context of a binding arrangement).
- BC28. The IPSASB decided that an asset recognized to reflect the existence of a transfer right shall be referred to as a transfer right asset. When or as the entity's transfer right is extinguished, the basis of asset recognition no longer exists. Therefore, the related transfer right asset is derecognized and expensed.
- BC29. The IPSASB also decided that when a transfer recipient has satisfied its obligations in a binding arrangement, the entity is obligated by the terms of the binding arrangement to transfer resources. This obligation results in the recognition of a liability in accordance with the Conceptual Framework⁴, and IPSAS 48 refers to such a liability as a transfer obligation liability.

Measurement

- BC30. The IPSASB made the following decisions regarding the measurement of transfer expenses arising from transactions with binding arrangements:

⁴ The IPSASB referred to the definition of a liability in the Conceptual Framework rather than IPSAS 1 at this stage, as IPSAS 1 has not yet been updated for the proposed changes to the framework.

- (a) Similar to transfer expenses from transactions without binding arrangements, the transfer consideration is measured based on the total carrying amount of the transferred resources, adjusted for the effects of variable consideration;
- (b) The guidance on variable consideration should refer to the existing recognition and measurement guidance for a provision in IPSAS 19. This is because variable consideration for a transfer expense is of a similar nature as a provision (i.e., a liability of uncertain timing and amount);
- (c) The requirement in ED 72 to consider the time value of money and the effect of financing was removed. Many respondents to ED 72 noted that transfers are typically funded in tranches rather than one large upfront payment, so it would be rare for the discounting of transfers to have a material impact on the financial statements; and
- (d) The allocation of the transfer consideration to the individual transfer rights in a binding arrangement should be based on the amounts stated in the binding arrangement, or if not explicitly stated, the amounts that the entity intends to compensate the transfer recipient for satisfying each of its compliance obligations in the binding arrangement. The IPSASB noted that this simplification is appropriate because:
 - (i) A transfer provider would be fully aware of how much it is willing to pay for each transfer right when negotiating the binding arrangement with the transfer recipient; and
 - (ii) The allocation requirements are more robust for revenue because, in addition to potentially changing the timing of revenue recognition, an inappropriate allocation for revenue could obscure the margins for certain goods or services or delay the recognition of losses. These additional concerns are not applicable for transfer expenses.

Presentation (paragraphs 44-61)

BC31. As noted in paragraph BC7(e), respondents to ED 72 raised concerns that the proposed disclosures were overly burdensome and did not focus on the nature and risks of transfer expense transactions. To address these concerns, the IPSASB decided to significantly reduce the required display and disclosures requirements to focus on the following areas:

- (a) Display and disclosure of transfer expenses and related balances – The IPSASB noted that many of the display and disclosure requirements in existing IPSAS are applicable to transfer expenses and related balances. These include:
 - (i) The analysis of expenses, as well as the display and disclosure of prepayment assets and transfers payable in IPSAS 1;
 - (ii) The display and disclosure requirements in IPSAS 28, *Financial Instruments: Presentation*, and IPSAS 30, *Financial Instruments: Disclosures*, are applicable to financial assets, as well as transfer obligation liabilities which meet the definition of financial liabilities, which arise from a transfer expense transaction; and
 - (iii) The display and disclosure requirements in IPSAS 19 are applicable to provisions recognized for constructive obligations or variable consideration.

As a result, the IPSASB decided to cross-reference to these requirements rather than develop new display and disclosure requirements;

- (b) Qualitative information regarding transfer arrangements – To enable users of the financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses, the IPSASB decided to require the disclosure of certain qualitative information for both binding arrangements and non-binding arrangements regarding transfer expenses; and
- (c) Significant judgments made regarding the recognition of transfer right assets – Because expenditures for programs and activities are typically expensed in the statement of financial performance, the recognition of a transfer right asset is not in line with general expectations. Therefore, the IPSASB decided to require the disclosure of significant judgments that led to the recognition of transfer right assets.

BC32. In addition, respondents to ED 72 had previously raised concerns over the complexity and value of reconciliations for opening and ending balances of transfer right assets and transfer obligation liabilities. Respondents also noted that these items are similar in nature to prepayment assets and transfers payable, which do not require such disclosures. Based on the feedback received, the IPSASB decided to remove the requirement to disclose these reconciliations.

BC33. The IPSASB decided to use the terms ‘transfer provider’, ‘transfer recipient’, ‘transfer right asset’ and ‘transfer obligation liability’ but this Standard does not prohibit an entity from using alternative descriptions in the financial statements for those terms. In addition, because this Standard refers to the disclosure requirements in other IPSAS as noted in paragraph BC31, an entity need not repeat the disclosure of information in accordance with this Standard if it has provided the information in accordance with another Standard.

Effective Date and Transition (paragraphs 62-64)

BC34. When ED 72 was developed, the transition provisions, including the practical expedients available, largely mirrored those from the revenue EDs. Some respondents noted that even with the practical expedients, the retrospective transitional provisions in ED 72 were onerous, with benefits not outweighing the costs, and could lead to practical difficulties in applying the final standard.

BC35. Based on the feedback received, the IPSASB noted that allowing prospective application of IPSAS 48 would not result in a significant loss of information because:

- (a) If a transfer expense was fully expensed in the prior period, the transfer of resources would have already occurred and would have been reported in the prior period financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with the revised guidance, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure; and
- (b) If an entity recognized an asset or liability for a transfer expense transaction by applying the asset or liability recognition and measurement principles of the Conceptual Framework, these principles are already consistent with the revised accounting model for transfer expenses.

BC36. Based on the above reasons, the IPSASB decided to allow prospective application of IPSAS 48 for all transfers occurring on or after the date of initial application. To provide entities with the flexibility to adjust their prior-period financial statements, the IPSASB also decided to include the option to

adopt IPSAS 48 on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Application Guidance

- BC37. The IPSASB considered the interaction between transfer expenses and the potential impairment of the assets to be transferred. The IPSASB noted that when a decision has been made to transfer a non-financial asset in the context of a transfer expense transaction, the asset is no longer held for the purposes of generating a commercial return and becomes a non-cash-generating asset for impairment purposes. Before the asset is transferred, the entity should consider if the decision to transfer the asset results in a significant change in use, which is an indicator to consider impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*. The IPSASB also noted that this separate consideration of impairment is not applicable to financial assets, as IPSAS 41 requires such assets to be assessed for impairment continuously. These decisions have been reflected in application guidance, as they relate to the application of existing IPSAS rather than new principles.
- BC38. The IPSASB noted the revised general accounting model for transfer expenses arising from transactions with binding arrangements fully addresses transactions involving capital transfers. Therefore, the IPSASB decided that capital transfers should be addressed in application guidance and implementation guidance, and that no separate principles are required to be developed.

Consideration of Re-Exposure

- BC39. The IPSASB considered whether there had been a substantial change to the ED such that re-exposure may be necessary:
- (a) The IPSASB discussed the differences between IPSAS 48 and ED 72 issued in 2020. In particular, the IPSASB discussed the accounting for transfers from the transfer provider's perspective and the use of a rights-based approach to asset recognition rather than the PSPOA. The IPSASB agreed that the changes made since the ED process addresses issues raised by constituents, and results in a clearer Standard. Although there were differences in the drafting and the mechanics in the Standard, there were no significant changes to the intended accounting for transfer expenses.
 - (b) The IPSASB noted that issuance of IPSAS 48 fills a gap in the IPSAS suite of standards. The IPSASB agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.
- BC40. Based on the above assessment, the IPSASB decided to approve IPSAS 48 without re-exposure and to finalize and issue the Standard.

Implementation Guidance

This guidance accompanies, but is not part of, 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 sector 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 judgment. 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 judgment 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 judgment 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 defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body (i.e., the enabling authority) to allocate funds 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, IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, is applicable, and a provision is recognized 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 authorization 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;
- (c) 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
- (d) 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, IPSAS 19 or 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 recognized for the existence of one or more transfer rights arising from a binding arrangement, it will not be possible to recognize 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 derecognized 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 judgment as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

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

include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

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

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

- (a) The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;
- (b) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and
- (c) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

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

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

E.1 Derecognition of a Transfer Right Asset

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

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

- (a) The transfer recipient has performed activities specified in the binding arrangement;
- (b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and
- (c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations in the public sector where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, some binding arrangements may specify that the extinguishment of an entity's transfer right depends on the satisfaction of the ultimate transfer recipient's compliance obligations. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from 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 derecognize 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 derecognized, 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 sector 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 recognize transfer expenses from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (e.g., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements span a longer term, the application of accounting principles is consistent with the accounting for other transfer expense transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in paragraphs 18-20 for transfer expenses arising without binding arrangements, or paragraphs 21-43 for transfer expenses arising from transactions with binding arrangements. The entity shall consider the recognition of a transfer right asset and/or transfer expense independently from the timing of when resources are physically transferred.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 48.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 48, *Transfer Expenses*, to particular transfer expense transactions on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 48.

Scope

IE2. Examples 1-2 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 1: Transfer Where the Other Party Provides Goods and Services

IE3. An international organization enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.⁵ Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A – Vehicle is Provided to the International Organization

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

IE5. The binding arrangement does not give rise to a transfer expense of the international organization, as the international organization 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 IPSAS 48. The international organization applies IPSAS 45, *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 National Government

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

IE7. The binding arrangement gives rise to a transfer expense of the international organization, as the international organization 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 national government, a third-party beneficiary.) The international organization (the transfer provider) applies paragraphs 21-43 of IPSAS 48 in accounting for the transfer, as it arises from a binding arrangement.

⁵ In these examples, monetary amounts are denominated in 'currency units' (CU).

Example 2: Research Grants

IE8. A national government enters a binding arrangement with a university whereby the national 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—National Government Controls Research

IE9. The binding arrangement includes a requirement that the university will transfer the results of the research to the national government, including rights to any intellectual property and/or patents created.

IE10. The binding arrangement does not give rise to a transfer expense of the national government, as the national 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 IPSAS 48. The national government applies 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 national 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 national government, as the national government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The national government (the transfer provider) applies paragraphs 21-43 of 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 IPSAS 48.

Example 3: Identifying Whether a Binding Arrangement Exists

IE14. A local government is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake these programs without assistance. The national government decides to transfer CU10 million of surplus funds to the local government to assist with its social programs. The details of the transfer are documented in a “funding agreement.” However, the agreement only results in an obligation for the national government to transfer funds and does not provide the national 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 national government, it is not a binding arrangement. The national 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. A national government has a financial year end of December 31. On March 15, 20X2, the national 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 20X2, and the remaining CU5 million to be transferred in 20X3. 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 in 20X2 on October 31, 20X2 and 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 20X2 but will be considered in the following year as part of the appropriation process for 20X3.
- IE18. In determining the effect of the appropriation on the arrangement, the national 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 authorizing legislation that requires the national 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 national government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in 20X2 and CU5 million in 20X3) until the appropriation process is completed. Consequently, in 20X2, the national government only recognizes an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations up to October 31, 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the national government would instead recognize a transfer right asset of CU10 million.
- IE21. On March 31, 20X3, parliament completes the appropriation process for the remaining CU5 million. At this date, the national government applies paragraphs 21-26 of 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 national and local governments, and there is legislation in place which requires the national 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 national government is required by law to complete the appropriation for the CU15 million transfer.
- IE23. The national 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 national government is required by law to complete the appropriation for the CU15 million transfer. Upon

execution of the binding arrangement, the national government applies paragraphs 21-26 of IPSAS 48 in determining when to recognize 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 IPSAS 48.

Example 5: Determining Whether Goods or Services are Distinct

Case A – Goods or Services are not Distinct

IE25. The Department of Health (the Department) enters a binding arrangement with the Department of Public Works (Public Works) for Public Works to build a hospital for the Provincial Government, a third-party beneficiary. Under the terms of the binding arrangement, Public Works 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 Department applies paragraphs 21, AG31-AG34 and considers the factors discussed in Implementation Guidance D.1 of 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 Public Works 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 hospital.)

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 IPSAS 48, the Department aggregates these related rights into a single transfer right.

Case B – Goods or Services are Distinct

IE29. A regional government office (Regional Government) enters into a binding arrangement with an IT services agency (the Agency) for the Agency to provide the following to a public sector 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 programs);
- (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 Regional 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 IPSAS 48. In making this assessment, the Regional Government applies the guidance in paragraphs AG31-AG34 of IPSAS 48.
- IE32. The Regional Governments 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 license and services can be separately enforced; and
 - (c) The goods or services are neither highly interdependent nor highly interrelated. The Regional 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 Regional 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 centralize the University's purchasing process and potentially negotiate a discount by bundling the license with services.
- IE34. On the basis of the above assessment, the Regional 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 IPSAS 48.

Example 6: Recognition of a Transfer Right Asset and its Subsequent Derecognition

- IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a regional government office (the Regional 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 Regional 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 Regional Government (i.e., the Regional 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 Regional Government recognizes the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognized based on the nature of each transfer right:
- (a) Productivity software – The Regional 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 license 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 Regional 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 derecognize CU2 million of the transfer right asset while recognizing a transfer expense over time during the two-year period (e.g., amortizing CU83,333 into expenses each month over the two-year period);
 - (c) Security updates, and technical support services – The Regional 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 derecognize the CU4 million while recognizing a transfer expense over time during the two-year period. (e.g., amortizing CU166,667 into expenses each month over the two-year period).

Example 7: Recognition of a Transfer Obligation Liability

IE39. A municipal government (the Government) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide copies of an accounting textbook to the public secondary schools in the city (the Schools, the third-party beneficiaries). Because the number of textbooks required by each school is based on the number of students enrolled in the accounting course, the binding arrangement only specifies that the Government will pay the Publisher CU30 per textbook, and the number of textbooks to be provided will be based on enrollment numbers which will be finalized a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the Government will provide the enrollment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the textbooks to the Schools at least two weeks before the start of the school year, and the Government will pay the remaining consideration for the textbooks provided within 30 days after the Schools have received the shipments.

IE41. Upon finalization of student enrollment, the enrollment numbers were provided to the Publisher, and 19,800 textbooks were shipped to the Schools. To account for this binding arrangement, the Government applies paragraphs 22-25 of 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 Government provides the enrollment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the Government recognizes a transfer right asset of CU59,400 (CU30 × 19,800 books × 10%):

Transfer right asset	CU59,400	
Cash		CU59,400

- (c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the textbooks to the Schools, and the Government’s right to have the textbooks delivered has been extinguished. The Government derecognizes the transfer right asset of CU59,400 and records the amount as a transfer expense. In addition, the Government also recognizes a transfer obligation liability and a transfer expense for the unpaid consideration of CU534,600 (CU30 × 19,800 books – CU59,400 deposit) based on the terms of the binding arrangement:⁶

Transfer expense	CU594,000	
Transfer right asset		CU59,400
Transfer obligation liability		CU534,600

Example 8: Derecognition of a Transfer Right Asset Due to Non-Performance

IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a corporation that operates a number of private clinics in a region (the Corporation). Under the terms of the binding

⁶ It should be noted that IPSAS 48 does not prohibit the Government from using alternative descriptions in its financial statements for the terms ‘transfer right asset’, ‘transfer obligation liability’, or ‘transfer expense’.

arrangement, the Ministry will provide an upfront payment of CU1 million to the Corporation for the Corporation to operate a vaccination program and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Corporation is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

- IE43. The binding arrangement specifies that if the Corporation stops administering the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Corporation is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Corporation has spent the funds on acquiring the vaccinations. (e.g., if the Corporation purchases 10,000 doses immediately upon receipt of the CU1 million, then only administers 5,000 doses and stops the vaccination program, it will be required to return CU500,000 to the Ministry even though the entire CU1 million has been spent.) However, the binding arrangement also specifies that the Corporation is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as war, terrorist attacks, or natural disasters.

Case A – The Corporation Decides to Stop the Vaccination Program

- IE44. Upon paying the CU1 million, the Ministry recognizes a transfer right asset for the right to have the Corporation’s clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Corporation purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Corporation observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Corporation makes a business decision and informs the Ministry that it will stop administering the vaccines.
- IE45. For the vaccines that have been administered, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes 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 IPSAS 48 and:
- (a) Derecognize the transfer right asset of CU950,000; and
 - (b) Recognize a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Corporation has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of IPSAS 41, *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in IPSAS 41 and is no longer within the scope of IPSAS 48.

Case B – A Force Majeure Event Prevents the Administration of 10,000 Doses

- IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognizes the amount as a transfer right asset. In this scenario, the Corporation also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Corporation informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination program and administer the remaining 9,000 within 12 months.
- IE47. Like Case A, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed

in the earthquake. In addition, the Corporation has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

- IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of IPSAS 48 and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Corporation's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with 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 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 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 Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works 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 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 Public Works has completed 60% of the building's construction based on the surveyor's report. Consequently, the expenses recognized 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 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 Public Works or an increase in Public Works' 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 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 recognizes additional expenses of CU9,500 [(53% complete × CU1,150,000 modified

transaction consideration) – CU600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

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 IPSAS 48; and
 - (b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Public Works 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 Public Works' influence, including weather conditions and regulatory approvals. In addition, Public Works 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 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 recognized 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 regional government office (Regional 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 Regional 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 Regional 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 Regional 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 Regional 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 Regional 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 Regional 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 Regional 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 IPSAS 48 to capital transfers.

Example 11: Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

- IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:
- (a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;
 - (b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;
 - (c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:
 - (i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities;
 - (ii) Provide detailed progress reports at each significant stage of construction; and
 - (d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.
- IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.
- 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 recognizes 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 derecognized 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 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 recognizes a transfer right asset of CU22 million upon the transfer of funds. Entity P then derecognizes the CU22 million (and recognizes 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 recognizes 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 derecognizes CU1 million of the transfer right asset per year over the 10-year period and recognizes 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 recognize 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 recognized 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 recognized in accordance with 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 subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization 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 recognizes 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 derecognizes the transfer right asset evenly over the 10-year period and recognizes a transfer expense of CU1 million per year.

Comparison with GFS

In developing IPSAS 48, *Transfer Expenses*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 48 and GFS will depend on the facts and circumstances of the transfer expense transactions.
- The definition of 'transfer expenses' in IPSAS 48 is drawn from the definition of 'transfers' in GFS but focuses on the perspective of the transfer provider.
- The accounting in IPSAS 48 is driven by the existence of a binding arrangement. In principle, the accounting in GFS is based on, among other considerations, the assessment of whether the transfer is compulsory or voluntary. Both IPSAS 48 and GFS may lead to the same accounting outcome in certain situations.
- IPSAS 48 distinguishes between transfer expenses arising from transactions with binding arrangements (including capital transfers) and transfer expenses from transactions without binding arrangements. GFS distinguishes grants as either current or capital grants, regardless of whether the grant arises from a binding arrangement, so different accounting outcomes could arise in certain situations.
- Under IPSAS 48, an entity recognizes a transfer expense when (or as) its enforceable right to have the transfer recipient satisfy its obligations is extinguished. Under GFS, the timing of expense recognition is based on the type of grant.

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Final Pronouncement
January 2019

IPSAS®

International Public Sector Accounting Standard®

IPSAS 42, *Social Benefits*

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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 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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IPSAS 42, SOCIAL BENEFITS

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Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits as defined in this Standard. The information provided should help users of the financial statements and general purpose financial reports assess:
 - (a) The nature of such social benefits provided by the entity;
 - (b) The key features of the operation of those social benefit schemes; and
 - (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.
2. To accomplish that, this IPSAS establishes principles and requirements for:
 - (a) Recognizing expenses and liabilities for social benefits;
 - (b) Measuring expenses and liabilities for social benefits;
 - (c) Presenting information about social benefits in the financial statements; and
 - (d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for social benefits.**
4. **This Standard applies to a transaction that meets the definition of a social benefit. This Standard does not apply to cash transfers that are accounted for in accordance with other Standards:**
 - (a) **Financial instruments that are within the scope of IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement* prior to an entity adopting IPSAS 41);**
 - (b) **Employee benefits that are within the scope of IPSAS 39, *Employee Benefits*; and**
 - (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts.**

Paragraphs AG1–AG3 provide additional guidance on the scope of this Standard.

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

Social benefits are cash transfers provided to:

 - (a) **Specific individuals and/or households who meet eligibility criteria;**
 - (b) **Mitigate the effect of social risks; and**
 - (c) **Address the needs of society as a whole.**

Paragraphs AG4–AG8 provide additional guidance on this definition.

Social risks are events or circumstances that:

- (a) **Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and**
- (b) **May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.**

Paragraphs AG9–AG10 provide additional guidance on what is encompassed by social risks.

General Approach

Recognition of a Liability for a Social Benefit Scheme

- 6. **An entity shall recognize a liability for a social benefit scheme when:**
 - (a) **The entity has a present obligation for an outflow of resources that results from a past event; and**
 - (b) **The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports as set out in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.**

Outflow of Resources

- 7. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.
- 8. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Past Event

- 9. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

Paragraphs AG11–AG14 provide additional guidance on the recognition of a liability.

Recognition of an Expense for a Social Benefit Scheme

- 10. **An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.**
- 11. An entity shall not recognize an expense for a social benefit scheme where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied. Rather, an entity shall recognize a payment in advance as an asset in the statement of financial position, unless the amount becomes irrecoverable, in which case it shall recognize an expense.

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

12. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.**
13. An entity's best estimate of the costs (i.e., the social benefit payments) that the entity will make takes into account the possible effect of subsequent events on those social benefit payments.
14. When the liability in respect of a social benefit scheme is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognized (i.e., the next social benefit payment will not be made for more than twelve months), the liability shall be discounted using the discount rate specified in paragraph 19.
15. Paragraphs AG15–AG18 provide additional guidance on measuring the liability.

Subsequent Measurement

16. **The liability for a social benefit scheme shall be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit in the period in which the liability is settled.**
17. **Where a liability is discounted in accordance with paragraph 14, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.**
18. **Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.**

Discount Rate

19. **The rate used to discount a liability in respect of a social benefit scheme shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the social benefit liability.**
20. Paragraph AG18 provides additional guidance on the discount rate to be used.

Measurement of an Expense for a Social Benefit Scheme

21. **An entity shall initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 12. Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it shall measure the payment in advance or expense recognized in accordance with paragraph 11 at the amount of the cash transferred.**

Disclosure

22. **The objective of the disclosures under the general approach, together with the information provided in the statement of financial position, statement of financial performance, statement**

of changes in net assets/equity and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 23–25 specify requirements on how to meet this objective.

23. **An entity shall disclose information that:**

- (a) **Explains the characteristics of its social benefit schemes; and**
- (b) **Explains the demographic, economic and other external factors that may affect its social benefit schemes.**

24. To meet the requirements of paragraph 23, an entity shall disclose:

- (a) Information about the characteristics of its social benefit schemes, including:
 - (i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).
 - (ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and a statement about how additional information about the scheme can be obtained.
 - (iii) A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:
 - a. A cross reference to the location of information about those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or
 - b. A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements and how that information can be obtained.
 - (iv) A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate where the same demographic, economic and other external factors impact a number of social benefit schemes in a similar manner.
- (b) The total expenditure on social benefits recognized in the statement of financial performance, analyzed by social benefit scheme.
- (c) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
 - (i) Changes to the level of social benefits provided; and
 - (ii) Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity shall have regard to the requirements of paragraphs 45–47 of IPSAS 1, *Presentation of Financial Statements*, which provide guidance on materiality and aggregation.

25. If a social benefit scheme satisfies the criteria in paragraph 28 to permit the use of the insurance approach, a statement to that effect.

Insurance Approach

Recognition and Measurement

26. **Where a social benefit scheme satisfies the criteria in paragraph 28, an entity is permitted, but not required, to recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts¹.**

Paragraph AG19 provides additional guidance on the accounting standards dealing with insurance contracts that may be applied, by analogy, in accounting for social benefits.

27. Where an entity elects not to apply by analogy the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall recognize and measure the liabilities and expenses associated with that social benefit scheme, and include disclosures in the financial statements, in accordance with paragraphs 6–25 of this Standard.
28. An entity may recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:
- (a) The social benefit scheme is intended to be fully funded from contributions; and
 - (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

Paragraphs AG20–AG25 provide additional guidance on determining whether these criteria have been satisfied.

Disclosure

29. **The objective of the disclosures under the insurance approach, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 30 and 31 specify requirements on how to meet this objective.**
30. **Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the**

¹ In the insurance approach section of this Standard, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17.

relevant international or national accounting standard dealing with insurance contracts, the entity shall disclose:

- (a) **The basis for determining that the insurance approach is appropriate;**
- (b) **The information required by the relevant international or national accounting standard dealing with insurance contracts; and**
- (c) **Any additional information required by paragraph 31 of this Standard.**

31. To meet the requirements of paragraph 30(c) of this Standard, an entity shall disclose:

- (a) Information about the characteristics of its social benefit schemes, including:
 - (i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits); and
 - (ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the scheme, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained; and
- (b) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
 - (i) Changes to the level of social benefits provided; and
 - (ii) Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity shall have regard to the requirements of paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation.

Reporting on the Long-Term Sustainability of an Entity’s Finances

32. Entities with social benefits are encouraged, but not required, to prepare general purpose financial reports that provide information on the long-term sustainability of the entity’s finances. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances*, provides guidance on the preparation of such reports.

Transitional Provisions

General Approach

33. **In accounting for a social benefit scheme that is recognized and measured, and about which disclosures are made, in accordance with the general approach (see paragraphs 6–25), an entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

Insurance Approach

34. **An entity shall apply the transitional provisions in the relevant international or national accounting standard dealing with insurance contracts in accounting for a social benefit scheme that is recognized and measured, and about which disclosures are made, in accordance with the insurance approach (see paragraphs 26–31).**

Effective Date

35. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2022. Earlier adoption is encouraged. If an entity applies this Standard for a period beginning before January 1, 2022, it shall disclose that fact.**
36. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Application Guidance

This Appendix is an integral part of IPSAS 42

Scope (see paragraphs 3–4)

- AG1. This Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 5 of this Standard. This Standard does not address transactions that are addressed in other IPSAS, such as employee pensions (which are accounted for in accordance with IPSAS 39, *Employee Benefits*) and concessionary loans such as student loans (which are accounted for in accordance with IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement* prior to an entity adopting IPSAS 41)).
- AG2. Similarly, this Standard does not apply to insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph 5 of this Standard. Insurance contracts are accounted for in accordance with the relevant international or national accounting standard dealing with insurance contracts.
- AG3. This Standard does not apply to collective and individual services. The definition of social benefits only includes cash transfers, not the provision of services. This Standard does not apply to cash transfers to individuals and households that do not address social risks, for example emergency relief.

Definitions (see paragraph 5)

Guidance on the Definition of Social Benefits

- AG4. Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/or households. Services provided by a public sector entity are not social benefits. In some jurisdictions, a public sector entity may provide vouchers that allow individuals and/or households to access services, or may reimburse individuals and/or households for costs incurred in accessing services. The economic substance of these transactions is that the public sector entity is paying for the provision of the services; such transactions do not, therefore, meet the definition of a social benefit. Where a public sector entity provides vouchers or reimbursements, the individual and/or household has no discretion over the use of the benefit. By contrast, social benefits provide cash transfers that may be used indistinguishably from income coming from other sources.
- AG5. Some jurisdictions may provide cash transfers in the form of cash equivalents that have limited restrictions on the use of the cash transfer. For example, a government may provide a pre-paid debit card that can be used to purchase any item except alcohol and tobacco products. Such limited restrictions do not contravene the principle that social benefits provide cash transfers that may be used indistinguishably from income coming from other sources. Pre-paid debit cards with limited restrictions are cash transfers, not the provision of services by a government.
- AG6. Social benefits are only provided when eligibility criteria to receive a social benefit payment when it is next paid are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be

insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where a public sector entity pays a universal basic income to all adult residents.

- AG7. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.
- AG8. Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.

Guidance on the Definition of Social Risks

- AG9. Social risks relate to the characteristics of individuals and/or households—for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.
- AG10. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual’s employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

General Approach (see paragraphs 6–21)

Recognition of a Liability for a Social Benefit Scheme

- AG11. In accordance with paragraph 9 of this Standard, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. Other ongoing eligibility criteria may be relevant for some social benefit schemes. For example, many unemployment benefits are only payable while the individual remains resident in the jurisdiction; residence is an ongoing eligibility criterion. For a liability to be recognized, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.

AG12. Where a beneficiary has not previously satisfied the eligibility criteria for the next payment, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria for the next payment are first satisfied or when all the eligibility criteria are satisfied again. Examples may include:

- (a) Reaching retirement age (in the case of a retirement pension);
- (b) The death of a partner (in the case of a survivor benefit);
- (c) Becoming unemployed (in the case of an unemployment benefit without a waiting period); and
- (d) Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

An entity will recognize a liability where beneficiaries satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date. Where a beneficiary satisfies the eligibility criteria for a social benefit payment prior to the point at which the next social benefit payment will be made, but after the reporting date, no liability is recognized, as there is no present obligation as at the reporting date.

AG13. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for social benefits is recognized each time the criteria are satisfied.

AG14. Whether being alive is a separate eligibility criterion will depend on the characteristics of each individual social benefit scheme. For some schemes, separate consideration of being alive is not required as it is indirectly addressed by another eligibility criterion. For example:

- (a) An unemployment benefit may only be payable to those who have become unemployed and are available for work (which implicitly includes being alive).
- (b) Being alive may not be an eligibility criterion for the recipient of the social benefit. A child benefit may be paid to the parents or guardian of the child; the payment of the benefit may be dependent on the child being alive, and not on the status of the parent or guardian.
- (c) Benefits may be transferred to a survivor following the death of the beneficiary.

An entity needs to consider how being alive affects the recognition of each particular social benefit scheme, taking all relevant factors into consideration.

Measurement of a Liability for a Social Benefit Scheme

AG15. In accordance with paragraph 12 of this Standard, an entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity expects to make in fulfilling the present obligation represented by the liability. Satisfaction of the eligibility criteria for each social benefit payment is a separate past event, and the liability for each payment is measured separately. The maximum amount to be recognized as a liability is the costs the entity expects to incur in making the next social benefit payment. This is because social benefit payments beyond this point are future events for which there is no present obligation.

AG16. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria for the next payment are required (implicitly or explicitly) to be satisfied. Examples include:

- (a) The death of the beneficiary (where no survivor benefits are payable);
- (b) Commencing employment (in the case of an unemployment benefit); and
- (c) Exceeding the maximum period for which a social benefit is provided (where an unemployment benefit is provided for a limited period).

The extent to which such events affect the measurement of the liability will depend on the terms of the scheme. For example, an unemployment benefit is payable on the 15th of each month, and the reporting date is December 31. If the payment to be made on January 15 relates to unemployment up to December 15, then at the time the eligibility criteria for the next social benefit payment are met, the amount due will be known and is recognized at the reporting date. No adjustment for beneficiaries subsequently ceasing to be eligible is required.

However, if the payment on January 15 relates to unemployment between December 16 and January 15, measurement of the liability to be recognized at the reporting date is based on an estimate of the extent to which eligibility criteria for a payment have been satisfied.

- AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. IPSAS 14, *Events After the Reporting Date*, provides guidance on using this information.
- AG18. Because a liability for a social benefit scheme will usually be a short-term liability, the time value of money may not be material. Nevertheless, this Standard requires an entity to discount the liability in those cases where the liability is not expected to be settled within twelve months of the reporting date and the impact of discounting is material. IPSAS 39 provides additional guidance on the discount rate to be used.

Insurance Approach (see paragraphs 26–28)

- AG19. In the insurance approach section of this Standard, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17. IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes that satisfy the criteria to use the insurance approach, will provide information that meets users’ needs and satisfies the qualitative characteristics. This may not be the case for other accounting standards dealing with insurance contracts. For example, the IASB has described IFRS 4, *Insurance Contracts*, as an “interim Standard that permits a wide range of practices and includes a “temporary exemption”, which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable.”² IFRS 4, and national standards that are consistent with the principles of IFRS 4, may not provide information that meets users’ needs and satisfies the qualitative characteristics. Consequently, an entity may not recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of standards that have not adopted substantially the same principles as IFRS 17.

² Exposure Draft ED/2013/7 *Insurance Contracts*

Guidance on Determining Whether a Social Benefit Scheme is Intended to be Fully Funded from Contributions

AG20. A social benefit scheme is intended to be fully funded from contributions when:

- (a) The legislation or other arrangement governing the social benefit scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme, together with investment returns arising from the contributions or levies; and
- (b) One or both of the following indicators (individually or in combination) is satisfied:
 - (i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions or levies will be sufficient to fully fund the social benefit scheme; and/or
 - (ii) Social benefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of social benefits provided will not exceed the level of funding available from contributions or levies.

In subparagraphs (i) and (ii) above, reviews are undertaken on a regular basis when they are performed at a frequency appropriate for the specific scheme. While annual reviews are common, less frequent—or more frequent—reviews will be appropriate for some schemes.

AG21. In some circumstances, a public sector entity may be required to make contributions to a social benefit scheme on behalf of those individuals and/or households who could not afford to do so. Such contributions may be made by the entity administering the scheme or some other entity. For example, a public sector entity may be required to make contributions to a retirement pension scheme for those individuals who are unemployed. Where the contributions relate to specified individuals and/or households (which in some cases will require the contributions to be credited against the individuals' contribution accounts), the contributions made by the public sector entity are to be considered as contributions for the purposes of determining whether a social benefit scheme is intended to be fully funded from contributions in accordance with paragraph 28(a). Where a public sector entity makes contributions to fund the deficit on a social benefit scheme, the contributions are not related to specified individuals and/or households, and are not considered as contributions for the purposes of determining whether a social benefit scheme is intended to be fully funded from contributions in accordance with paragraph 28(a).

AG22. In assessing whether a social benefit scheme is intended to be fully funded from contributions, an entity considers substance over form. For example, where a social benefit scheme is in deficit for a period but the scheme has an ability to adjust the future contribution rates and/or benefits payable such that the deficit is addressed, the scheme may still satisfy the criteria to be accounted for under the insurance approach.

AG23. The reference in paragraph AG20(a) to "those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme" is intended to cover those social benefit schemes such as an accident insurance scheme that:

- (a) Are funded by levies on, for example, motorists or employers in particular industries; and

- (b) Provide coverage against social risks to the wider population.

Guidance on Determining Whether an Entity is Managing a Scheme in the Same Way as an Insurer

AG24. An entity is managing a social benefit scheme in the same way as an insurer would manage an insurance portfolio when the social benefit scheme has, with the exception of its legislative rather than contractual origins, the characteristics of an insurance contract. The social benefit scheme should confer the rights and obligations on parties similar to that of an insurance contract.

AG25. In determining whether it is managing a social benefit scheme in the same way as an insurer would manage an insurance portfolio, an entity considers the following indicators:

- (a) Does the entity consider itself bound by the scheme in a similar manner to an insurer being bound by an insurance contract? For example, there may be evidence that the entity considers that it can amend the terms of the scheme for existing participants in a manner that an insurer could not (such as where the entity can make retrospective changes to the scheme). In such cases, the entity will not be bound in a similar manner to an insurer, and the social benefit scheme will not have the characteristics of an insurance contract. An entity will be bound by the scheme in a similar manner to an insurer where its ability to amend the scheme for existing participants is limited to:
 - (i) Circumstances prescribed by the legislation that establishes the scheme (equivalent to a contractual term permitting changes in specific circumstances); or
 - (ii) When a government is setting new contribution or levy rates (where a trade-off between the contributions and prospective benefits is part of the process of determining an appropriate rate).
- (b) Are assets relating to the social benefit scheme held in a separate fund, or otherwise earmarked, and restricted to being used to provide social benefits to participants? If an entity does not separately identify amounts relating to social benefits, this will provide evidence that the entity considers the contributions as a form of taxation. The social benefit scheme will not have the characteristics of an insurance contract. There will also be practical difficulties with applying the measurement requirements of the relevant international or national accounting standard dealing with insurance contracts if the assets associated with a social benefit scheme are not separately identified.
- (c) Does the legislation that establishes the social benefit give enforceable rights to participants in the event that the social risk occurs? Insurance contracts give such rights to policyholders. If the social benefit scheme does not also include such rights, then any social benefits provided by the entity will have a discretionary nature, meaning that the social benefit scheme will not have the characteristics of an insurance contract. For rights to be enforceable, a participant would need to have the right to challenge—in a court of law, via an arbitration or dispute resolution process or similar mechanism—decisions by the entity. The decisions that may be challenged include, but are not limited to, those regarding whether an event is covered by a scheme, the level of social benefits payable by a scheme, and the duration of any social benefits payable by a scheme.
- (d) An entity assesses the financial performance and financial position of a social benefit scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme. The assessment is expected to involve the use of actuarial reviews, mathematical

modelling, or similar techniques to provide information for internal decision-making on the different possible outcomes that might occur.

- (e) Is there a separate entity established by the government, which is expected to act like an insurer in relation to a social benefit scheme? The existence of such an entity provides evidence that the entity is managing a scheme in the same way as an insurer would manage an insurance portfolio. However, it is not a requirement for applying the insurance approach that a separate entity has been established. Relevant international and national accounting standards dealing with insurance contracts apply to insurance contracts, not just to insurance companies.

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 88, 94, and 112–115 are amended and paragraph 153M is added. New text is underlined and deleted text is struck through.

...

Structure and Content

...

Statement of Financial Position

...

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:**

(a) **Property, plant, and equipment;**

...

(j) **Taxes and transfers payable;**

(ja) **Social benefits liabilities;**

(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 IPSASs 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:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 17;

...

(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;

(e) Provisions are disaggregated into provisions for employee benefits and other items; and

(f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

...

Statement of Financial Performance

...

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

...

112. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits, and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
<u>Social benefits expenses</u>	<u>X</u>	
Depreciation and amortization expense	X	
Other expenses	<u>X</u>	
Total expenses		<u>(X)</u>
Surplus		<u><u>X</u></u>

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue		X
Expenses:		
<u>Social benefits expenses</u>		<u>(X)</u>
Health expenses		(X)
Education expenses		(X)
Other expenses		<u>(X)</u>
Surplus		<u><u>X</u></u>

114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of social benefits, health and education services. The entity would present expense line items for each of these functions.

115. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense, social benefits expense and employee benefits expense.**

...

Effective Date

...

153M. Paragraphs 88, 94 and 112–115 were amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.

...

Implementation Guidance

...

Public Sector Entity—Statement of Financial Position

As at December 31, 20X2

(in thousands of currency units)

	20X2	20X1
ASSETS		
...		
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
<u>Social benefits</u>	<u>X</u>	<u>X</u>
Employee benefits	X	X
Superannuation	X	X
	<hr/>	<hr/>
	X	X
Non-current liabilities		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
<u>Social benefits</u>	<u>X</u>	<u>X</u>
Employee benefits	X	X
Superannuation	X	X
	<hr/>	<hr/>
	X	X
Total liabilities	<hr/>	<hr/>
	X	X
Net assets	<hr/>	<hr/>
	X	X

	20X2	20X1
Net assets/equity		
...		
Non-controlling interest	<u>X</u>	<u>X</u>
Total net assets/equity	<u>X</u>	<u>X</u>

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
Revenue		
...		
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
<u>Social benefits</u>	<u>(X)</u>	<u>(X)</u>
Other social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	<u>(X)</u>	<u>(X)</u>
Total Expenses	<u>(X)</u>	<u>(X)</u>

...

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)

	20X2	20X1
Revenue		
...		
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
<u>Social benefits</u>	<u>(X)</u>	<u>(X)</u>
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	<u>(X)</u>	<u>(X)</u>
Total Expenses	<u>(X)</u>	<u>(X)</u>

...

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant, and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended and paragraph 63G is added. New text is underlined and deleted text is struck through.

...

Presentation of a Cash Flow Statement

...

Operating Activities

...

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:

(a) Cash receipts from taxes, levies, and fines;

...

(d) Cash receipts from royalties, fees, commissions, and other revenue;

(da) Cash payments to beneficiaries of social benefit schemes;

(e) Cash payments to other public sector entities to finance their operations (not including loans);

....

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 83A of IPSAS 17, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

...

Effective Date

63G. Paragraph 22 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 2.

Cash Flow Statement (For an Entity Other Than a Financial Institution)

Direct Method Cash Flow Statement (paragraph 27(a))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2

IPSAS 42—SOCIAL BENEFITS

	(in thousands of currency units)	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
...			
Payments			
Employee costs		(X)	(X)
Superannuation		(X)	(X)
Suppliers		(X)	(X)
<u>Social benefits</u>		<u>(X)</u>	<u>(X)</u>
Interest paid		(X)	(X)
Other payments		(X)	(X)
Net cash flows from operating activities		<u>X</u>	<u>X</u>

...

Notes to the Cash Flow Statement

...

(C) *Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)*

	(in thousands of currency units)	20X2	20X1
Surplus/(deficit)		X	X
Non-cash movements			
Depreciation		X	X
...			
Increase in borrowings		X	X
<u>Increase in social benefits liabilities</u>		<u>X</u>	<u>X</u>
Increase in provisions relating to employee costs		X	X
...			
Increase in receivables		(X)	(X)
Net cash flows from operating activities		<u>X</u>	<u>X</u>

Indirect Method Cash Flow Statement (paragraph 27(b))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2

	(in thousands of currency units)	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(deficit)		X	X
Non-cash movements			
Depreciation		X	X
Amortization		X	X
Increase in provision for doubtful debts		X	X
Increase in payables		X	X
Increase in borrowings		X	X
<u>Increase in social benefits liabilities</u>		<u>X</u>	<u>X</u>
Increase in provisions relating to employee costs		X	X
(Gains)/losses on sale of property, plant and equipment		(X)	(X)
(Gains)/losses on sale of investments		(X)	(X)
Increase in other current assets		(X)	(X)
Increase in investments due to revaluation		(X)	(X)
Increase in receivables		(X)	(X)
Net cash flows from operating activities		<u>X</u>	<u>X</u>

Amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

Paragraphs 1, 12, 19, and 77 are amended, paragraph 111I is added and paragraphs 7–11, 99 and 104 are deleted. New text is underlined and deleted text is struck through.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**
 - (a) ~~Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits~~Social benefits within the scope of IPSAS 42;

...

Social Benefits

- ~~7. For the purposes of this Standard, “social benefits” refer to goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

 - (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
 - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.~~
- ~~8. In many cases, obligations to provide social benefits arise as a consequence of a government’s commitment to undertake particular activities on an ongoing basis over the long term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions, and are difficult to predict. These benefits generally fall within the social protection, education, and health classifications under the International Monetary Fund’s Government Finance Statistics framework, and often require an actuarial assessment to determine the amount of any liability arising in respect of them.~~
- ~~9. For a provision or contingency arising from a social benefit to be excluded from the scope of this Standard, the public sector entity providing the benefit will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of the benefit. This exclusion would encompass those circumstances where a charge is levied in respect of the benefit, but there is no direct relationship between the charge and the benefit received. The exclusion of these provisions and contingent liabilities from the scope of this Standard reflects the Committee’s view that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability require further consideration before proposed Standards are exposed. For example, the Committee is aware that there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some~~

~~earlier stage. Similarly, there are differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement, or the present value of all expected future benefits determined on an actuarial basis.~~

- ~~10. Where an entity elects to recognize a provision for such obligations, the entity discloses the basis on which the provisions have been recognized and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. IPSAS 1 provides guidance on dealing with matters not specifically dealt with by another IPSAS. IPSAS 1 also includes requirements relating to the selection and disclosure of accounting policies.~~
- ~~11. In some cases, social benefits may give rise to a liability for which there is:~~
- ~~(a) Little or no uncertainty as to amount; and~~
 - ~~(b) The timing of the obligation is not uncertain.~~

~~Accordingly, these are not likely to meet the definition of a provision in this Standard. Where such liabilities for social benefits exist, they are recognized where they satisfy the criteria for recognition as liabilities (refer also to paragraph 19). An example would be a period-end accrual for an amount owing to the existing beneficiaries in respect of aged or disability pensions that have been approved for payment consistent with the provisions of a contract or legislation.~~

Other Exclusions from the Scope of the Standard

- ~~12. This Standard does not apply to executory contracts unless they are onerous. Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

...

Definitions

...

Provisions and Other Liabilities

- ~~19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:~~
- ~~(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and~~

...

Application of the Recognition and Measurement Rules

...

Onerous Contracts

- ~~77. Paragraph 76 of this Standard applies only to contracts that are onerous. Contracts to provide social benefits entered into with the expectation that the entity does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

...

Disclosure

...

~~99. Where an entity elects to recognize in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, it shall make the disclosures required in paragraphs 97 and 98 in respect of those provisions.~~

...

~~104. The disclosure requirements in paragraph 100 do not apply to contingent liabilities that arise from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods or services provided, directly in return from the recipients of those benefits (see paragraphs 1(a) and 7–11 for a discussion of the exclusion of social benefits from this Standard).~~

...

Effective Date

...

111l. Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 19.

...

Revision of IPSAS 19 as a result of IPSAS 42, *Social Benefits*

BC3. When issued, this Standard excluded provisions and contingent liabilities “arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits” from the scope of the Standard. This reflected the view at that time that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability required further consideration.

BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.

BC5. Following the publication of IPSAS 42, all social benefits (as defined in that Standard) will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of IPSAS 42.

Comparison with IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

- IPSAS 19 includes commentary additional to that in IAS 37 to clarify the applicability of the standards to accounting by public sector entities. IPSAS 19 clarifies that it does not apply to social benefits within the scope of IPSAS 42, *Social Benefits*. ~~In particular, the scope of IPSAS 19 clarifies that it does not apply to provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of the goods and services provided directly in return from recipients of those benefits. However, if the entity elects to recognize provisions for social benefits, IPSAS 19 requires certain disclosures in this respect.~~

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraph 2 is amended and paragraph 124G 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 revenue from non-exchange transactions. This Standard does not apply to:**
 - (a) A a public sector combination that is a non-exchange transaction; and
 - (b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of IPSAS 42, *Social Benefits* (the insurance approach).

...

Effective Date

...

- 124G. Paragraph 2 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

...

Compulsory Contributions to Social Security Schemes

- BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. At the time that IPSAS 23 was developed, the IPSASB considered that ~~W~~ whether or not compulsory contributions to social security schemes give rise to

exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

BC26A. The IPSASB reconsidered this issue in developing IPSAS 42, *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this Standard.

Amendments to IPSAS 24, *Presentation of Budget Information in Financial Statements*

Paragraph 48 is amended and paragraph 54E is added. New text is underlined.

...

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

...

48. Differences between the actual amounts identified consistent with the comparable basis, and the actual amounts recognized in the financial statements, can usefully be classified into the following:
- (a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis and the financial statements are prepared on the accrual basis;
 - (b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and
 - (c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget. For example, social benefits as defined in IPSAS 42, *Social Benefits*, are limited to cash transfers. The GFS classification of social benefits is wider, and includes some individual services provided by governments.

...

Effective Date

...

54E. Paragraph 48 was amended by IPSAS 42 issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 24.

...

Revision of IPSAS 24 as a result of IPSAS 42, *Social Benefits*

BC25. In developing IPSAS 42, *Social Benefits*, the IPSASB noted that its definition of social benefits did not include all the transactions classified as social benefits under GFS. As some public sector entities may prepare budgets using the GFS basis, the IPSASB considered that it would be helpful to preparers to include social benefits as an example of where there may be differences in the classification schemes adopted for presentation of financial statements and the budget.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 24.

Statement of Comparison of Budget and Actual Amounts

For Government XX for the Year Ended December 31, 20XX

BUDGET ON CASH BASIS

(Classification of Payments by Functions)

Note: The budget and the accounting basis is different. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

(in currency units)	Budgeted Amounts		Actual Amounts on Comparable Basis	*Difference: Final Budget and Actual
	Original	Final		
RECEIPTS				
...				
PAYMENTS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
<u>Social Benefits</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
SOther social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	(X)	(X)	(X)	(X)

...

* The "Difference..." column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

Encouraged Note Disclosure: Biennial Budget on Cash Basis—For Government B for the Year Ended December 31, 20XX

(in currency units)	Original Biennial Budget Year	Target Budget for 1 st Year	Revised Budget in 1 st Year	1 st Year Actual on Comparable Basis	Balance Available for 2 nd Year	Target Budget for 2 nd Year	Revised Budget in 2 nd Year	2 nd Year Actual on Comparable Basis	<i>*Difference: Budget and Actual over Budget Period</i>
RECEIPTS									
...									
PAYMENTS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
<u>Social Benefits</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
S Other social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total payments	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
NET RECEIPTS/ (PAYMENTS)	X	X	X	X	X	X	X	X	X

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraph 60G is added and paragraph AG23 is amended. New text is underlined and deleted text is struck through.

...

Effective date

60G. Paragraph AG23 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.

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 the relevant international or national accounting standard dealing with income taxes.
- Obligations to provide social benefits are accounted for in accordance with ~~IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*~~ and IPSAS 19~~IPSAS 42, *Social Benefits*~~.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraph 36 is amended and paragraphs 134A, 134B and 154G are added. New text is underlined and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. **Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or**

liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

- (a) Inventories (see IPSAS 12, *Inventories*);
- (b) Investment property (see IPSAS 16, *Investment Property*);
- (c) Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);
- (d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);
- (e) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);
- (f) Intangible assets (see IPSAS 31, *Intangible Assets*);
- (g) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); ~~and~~
- (h) Financial instruments (see IPSAS 41, *Financial Instruments*); ~~and~~
- (i) Social benefits (see IPSAS 42, *Social Benefits*).

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

...

IPSAS 42, *Social Benefits*

134A. On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with IPSAS 42.

134B. If the initial liability in accordance with paragraph 134A is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

...

Effective Date

...

154G. Paragraph 36 was amended and paragraphs 134A and 134B were added by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 42 at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

...

IPSAS 42, Social Benefits

BC60A. The IPSASB issued IPSAS 42, *Social Benefits*, in January 2019. The IPSASB acknowledged that the recognition and/or measurement of liabilities related to social benefits may be challenging for some public sector entities. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of liabilities related to social benefits.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

...

Presentation and Disclosure

...

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 First-time Adoption of Accrual Basis IPSASs

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

...

IPSAS 42—SOCIAL BENEFITS

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
<u>IPSAS 42. Social Benefits</u>			✓ <u>liabilities for social benefits not recognized under previous basis of accounting</u>	✓ <u>liabilities for social benefits recognized under previous basis of accounting</u>				

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 42

Objective (paragraphs 1–2)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with social benefits, public sector entities were required to develop their own accounting policies for recognizing, measuring and presenting social benefits. As a result, there may not have been consistent or appropriate reporting of transactions and obligations related to social benefits in general purpose financial statements (financial statements). Consequently, users may not have been able to obtain the information needed to identify the social benefits provided by an entity and evaluate their financial effect. The IPSASB believes that IPSAS 42 will promote consistency and comparability in how social benefits are reported by public sector entities.

Scope and Definitions (paragraphs 3–5)

History

- BC2. In developing IPSAS 42, the IPSASB noted that existing IPSASs did not define social benefits. Instead, a broad description was given in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.
- BC3. IPSAS 19 described social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
 - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”
- BC4. The IPSASB also had regard to its previous work in this area. The 2004 Invitation to Comment (ITC), *Accounting for Social Policies of Government*, sought views on how to account for a wide range of social benefits. The ITC noted that “Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).” These are often referred to as “collective services” or “collective goods and services.”
- BC5. Responses to the ITC supported the development of an IPSAS on social benefits. However, the IPSASB failed to reach a consensus on when a present obligation arises especially for contributory cash transfer schemes. Consequently, in 2008 the IPSASB issued Exposure Draft (ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*. At this time the IPSASB also issued a Project Brief, *Long-Term Fiscal Sustainability*.
- BC6. Respondents did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Consequently, the IPSASB agreed not to proceed with ED 34.

- BC7. The CP, *Social Benefits: Issues in Recognition and Measurement*, proposed a narrower definition of social benefits than had been included in the 2004 ITC. The CP included the following definition of social benefits:
- “The IPSASB defines social benefits as;
- (a) Cash transfers; and
 - (b) Collective and individual goods and services
- that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks.”
- BC8. This definition introduced the idea of social benefits being related to social risks for the first time in the IPSASB’s literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The CP did not, however, define social risks.
- BC9. Despite the narrower scope and the link with social risks, the IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP. The IPSASB recognized the linkages between its work in developing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) and accounting for social benefits. The elements and recognition phase of the *Conceptual Framework* would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the *Conceptual Framework*.
- BC10. In the interim, the IPSASB initiated a project on the long-term sustainability of public finances in 2008, based on the project brief. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances* was published in 2013.
- BC11. RPG 1 provides guidance on preparing general purpose financial reports that can meet users’ needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.
- BC12. In the context of social benefits, general purpose financial reports prepared in accordance with RPG 1 will provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who are not currently contributing to a scheme that would entitle them to future social benefits. RPG 1 does not address the question of whether such obligations meet the definition of a present obligation, and so should be recognized in the financial statements.
- BC13. General purpose financial reports prepared in accordance with RPG 1 will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.
- BC14. The IPSASB restarted its work on social benefits in 2014. The IPSASB noted that the broad scope of social benefits included in previous projects had been a factor in the IPSASB failing to reach consensus. Consequently, the IPSASB decided to adopt a narrower definition of social benefits. At this time, the IPSASB had agreed to commence work on a non-exchange expenses project; the

IPSASB considered that adopting a narrower definition of social benefits would best meet the project management needs of both projects.

Role of Government Finance Statistics (GFS)

- BC15. The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate. The IPSASB therefore considered the approach to social benefits taken in GFS.
- BC16. In developing the CP, *Recognition and Measurement of Social Benefits* (issued in 2015) the IPSASB considered that social benefits, other transfers in kind and collective services would be expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB considered that different factors would arise in the recognition and measurement of transactions that address specific social risks (i.e., social benefits) and those transactions that do not. For example, the recognition and measurement of an obligation in respect of social benefits may be related to individuals satisfying eligibility criteria.
- BC17. Having reviewed the approach to social benefits taken in GFS, the IPSASB noted that the economic consequences described in GFS were likely to be similar to those in a future IPSAS. The IPSASB decided to align, as far as possible, its definition of social benefit with those in GFS. This was the approach taken in the CP, *Recognition and Measurement of Social Benefits*.
- BC18. The alignment with GFS was intended to provide clearer definitions that demarcate transactions and events which are, in substance dissimilar. It also maximized consistency between the two frameworks, in line with the IPSASB policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

Responses to Consultation Paper, Recognition and Measurement of Social Benefits

- BC19. A majority of respondents supported the scope of the project as set out in the 2015 CP, and the IPSASB's intention to align the scope of the project, and the definitions of social benefits and social risks, with GFS. These respondents considered that alignment with GFS would assist with interpreting an IPSAS and help ensure consistency in its application.
- BC20. However, a significant minority raised concerns. The main concerns were:
- (a) Definition of social risk. A number of respondents considered that the definition of social risk was difficult to apply in practice, and that it was therefore difficult to differentiate between social benefits and certain other non-exchange expenses of government.
 - (b) The boundary between social benefits and non-exchange expenses. Some respondents considered that social benefits in kind and other transfers in kind give rise to the same issues. These respondents considered that the scope of the 2015 CP creates an artificial boundary between social benefits and other non-exchange expenses.
- BC21. The IPSASB considered these concerns in developing ED 63, *Social Benefits*, as follows:
- (a) The definition of social risks was reframed to fit an accounting framework as opposed to an economic/statistical framework. Although the wording of the definition was amended in ED 63, the IPSASB's intention in so doing was to clarify the meaning of the definitions for preparers, rather than to modify the risks that are considered to be social risks. The definition of social benefits was also amended to improve the clarity of the definition.

- (b) ED 63 distinguished between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks are often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks are often reactive, and may be put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange expenses project than this Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.
- (c) ED 63 distinguished between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction was intended to provide a more principles based, less artificial boundary between social benefits and other non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to other non-exchange expenses. In developing this boundary, the IPSASB acknowledged that social benefits and other non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.

BC22. The effect of these decisions was to align the scope of ED 63, and its definitions of social benefits and social risks, with those in GFS, with the exception of universally accessible services. Universally accessible services such as a universal healthcare service are considered to be social benefits under GFS, but were outside the scope of ED 63. The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and other non-exchange expenses.

Responses to ED 63, Social Benefits

- BC23. ED 63 specifically excluded collective services and universally accessible services from the scope of social benefits, as proposed in the 2015 CP. Most respondents to ED 63 supported the proposed scope. In doing so, respondents who supported the proposed scope commented that it was important that the boundary between social benefits and universally accessible services was clearly defined. They also commented that accounting treatments for social benefits and universally accessible services should have the same conceptual basis, with any differences in treatment being related to the different nature of the transactions.
- BC24. The minority of respondents who did not support the proposed scope and definitions in ED 63 had similar concerns. These respondents considered that the scope and definitions needed to be further refined to avoid confusion and possible boundary issues or divergent accounting treatments. In particular, they considered that excluding universally accessible services from the scope of the proposed Standard could be difficult to apply, as the boundary between social benefits and universally accessible services was unclear.

- BC25. As a result of these concerns, the IPSASB decided to clarify the scope and definitions. The IPSASB noted that respondents had different understandings of the scope and definitions in ED 63. Some respondents appeared to consider that social benefits were limited to cash transfers, whereas other respondents considered that social benefits included the provision of some services.
- BC26. The IPSASB concluded that ED 63 was insufficiently clear about the definition of social benefits (and whether social benefits were limited to cash transfers), and therefore about the scope of the proposed Standard. The IPSASB also noted that in the Illustrative Examples provided in ED 63, all the transactions that satisfied the definition of a social benefit were cash transfers, whereas a number of the transactions that did not satisfy the definition of a social benefit involved the provision of services.
- BC27. The IPSASB noted that defining social benefits as cash transfers would remove much of the confusion regarding the boundary between social benefits and universally accessible services.
- BC28. The IPSASB also concluded that, when considering these transactions, there were conceptual differences between cash transfers and the provision of services. The provision of services would involve exchange transactions (for example, the expenses incurred in employing staff to provide these services or the expenses incurred in procuring goods and services from other entities). Cash transfers do not involve any additional transactions.
- BC29. For these reasons, the IPSASB concluded that the economic substance of cash transfers made to individuals and households was different to the economic substance of services provided to individuals and households. The IPSASB therefore agreed that the scope of this social benefits Standard should be limited to cash transfers.
- BC30. Following this decision, the IPSASB considered the nature of cash transfers. The IPSASB agreed that the form of the cash transfer was not important, and could include cash equivalents such as pre-paid debit cards. In this context, the IPSASB also agreed that cash transfers in the form of cash equivalents should impose no or limited restrictions on the use of the cash. The IPSASB noted that some jurisdictions using pre-paid debit cards imposed limited restrictions on the card, for example preventing its use to purchase alcohol or tobacco products. The IPSASB agreed that this type of limited restriction was not equivalent to a government directing how the cash should be used. Consequently, the IPSASB agreed that the provision of a pre-paid debit card with limited restrictions on its use was a cash transfer for the purposes of the social benefits definition.
- BC31. Some respondents to ED 63 did not see the rationale for distinguishing between social risks and other risks. These respondents proposed removing the reference to social risks in the definition of social benefits, and extending the scope of this Standard to include other benefits such as emergency relief.
- BC32. The IPSASB noted that respondents to both the CP, *Recognition and Measurement of Social Benefits* and ED 63 had generally supported the reference to social risks, which maintained consistency with GFS. The IPSASB also remained of the view that governments' responses to social risks are often different to their response to other risks (see paragraph BC21(b) above).
- BC33. For these reasons, the IPSASB decided to retain the reference to social risks in the definition of social benefits.

Approaches to Accounting for Social Benefits

- BC34. The IPSASB consulted on three approaches to accounting for social benefits in the CP, *Recognition and Measurement of Social Benefits*. These were the obligating event approach (now referred to as the general approach), the social contract approach and the insurance approach.
- BC35. The social contract approach viewed obligations to provide social benefits by governments as quasi-contractual in nature, and adopted executory contract accounting.
- BC36. In developing the CP, the IPSASB came to a preliminary view that the social contract approach was not consistent with the *Conceptual Framework*. Respondents to the CP supported this preliminary view. Respondents considered that the social contract approach would result in items that met the definition of a liability not being recognized. Consequently, respondents considered that the social contract approach would not provide information that is useful for accountability and decision-making purposes.
- BC37. The IPSASB noted the support for its preliminary view, and agreed not to proceed with the social contract approach.
- BC38. In developing the CP, the IPSASB came to a preliminary view that a combination of the general approach and (for some or all contributory schemes) the insurance approach might be required to reflect the different economic circumstances arising in respect of social benefits.
- BC39. Respondents to the CP supported this preliminary view. The IPSASB therefore agreed to develop both the general approach and the insurance approach in IPSAS 42.

Non-Exchange Expenses Project

- BC40. As noted in paragraph BC14, the IPSASB has adopted a narrower definition of social benefits, considering that this would best meet the project management needs of both the social benefits project and the non-exchange expenses project.
- BC41. The IPSASB issued a CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. In this CP, the IPSASB expressed a preliminary view that a performance obligation approach would be appropriate for recognizing and measuring some types of non-exchange expense transactions. Consequently, the IPSASB considered whether such an approach could be applied to social benefits.
- BC42. The IPSASB noted that social benefits are provided where a social risk has occurred, for example an individual has become unemployed or an individual has reached retirement age. The IPSASB concluded that social risks do not involve performance of an obligation by the individual and, consequently, the performance obligation approach would not be appropriate for recognizing and measuring social benefits. For similar reasons, the IPSASB is not proposing to adopt the performance obligation approach to non-exchange expenses for universally accessible services and collective services.

General Approach (paragraphs 6–25)*Recognition*

- BC43. In developing the CP, *Recognition and Measurement of Social Benefits*, the IPSASB identified five distinct points at which a case could be made for recognizing a social benefit obligation in the financial statements. These were:
- (a) Key participatory events have occurred;
 - (b) Threshold eligibility criteria have been satisfied;
 - (c) The eligibility criteria to receive the next benefit have been satisfied;
 - (d) A claim has been approved; and
 - (e) A claim is enforceable.
- BC44. The CP sought respondents' views on these possible obligating events. The CP also asked respondents whether a future IPSAS should consider that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose.
- BC45. In reviewing the responses to the CP, the IPSASB noted that there was substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. The IPSASB agreed to take this view into account in determining which obligating events should be included in ED 63.
- BC46. The IPSASB also noted, however, that there was no consensus as to the range of different points at which an obligating event could arise. The IPSASB therefore focused on analyzing the various obligating events by reference to the *Conceptual Framework*, noting respondents' comments where these provided evidence about a particular obligating event or raised other matters that required consideration.
- BC47. In developing the CP, the IPSASB had initially agreed that aligning the recognition and measurement of social benefits with GFS could only be considered once responses had been reviewed. Subsequently, the IPSASB noted that a range of recognition points might be appropriate under the general approach.
- BC48. If this were the case, this would implicitly reject alignment of the recognition and measurement of social benefits with GFS under the general approach. This is because, under GFS, an expense is recorded only when the payment of the social benefits is due (i.e., in line with the claim is enforceable obligating event only).
- BC49. The IPSASB also concluded that consistency with the *Conceptual Framework* should take priority over alignment with the GFS treatment. Any alignment that emerged from the IPSASB's deliberations would, therefore, be coincidental.

Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Recognition

- BC50. The IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement. This could be the case where a social benefit was intended to be provided on a "one-off" or short-term basis. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of the requirement to satisfy ongoing eligibility criteria.

- BC51. The first possible obligating event identified in the 2015 CP that took account of the requirement to satisfy ongoing eligibility criteria was that the eligibility criteria to receive the next benefit have been satisfied. Respondents to the CP gave significant support to the inclusion of this obligating event. Respondents noted that for some social benefits, the satisfaction of the eligibility criteria by a potential beneficiary would be sufficient to give rise to a legal obligation for an entity. Where this was not the case, respondents considered that this possible obligating event would give rise to a non-legally binding obligation. The IPSASB agreed with these comments.
- BC52. A small number of respondents did not support this possible obligating event, arguing that an entity still had discretion to avoid payment until a claim has been approved. These respondents commented that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power.
- BC53. The IPSASB did not support this view. The IPSASB noted that paragraph 5.22 of the *Conceptual Framework* addressed the issue of sovereign power:
- “Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.”
- BC54. The IPSASB concluded that a beneficiary satisfying the eligibility criteria to receive the next social benefit would give rise to a present obligation that meets the definition of a liability. Consequently, the IPSASB agreed that the ‘eligibility criteria to receive the next social benefit have been satisfied’ obligating event should be included as an obligating event in ED 63.
- BC55. The IPSASB next considered the claim has been approved and claim is enforceable obligating events. The IPSASB noted that respondents generally did not support the use of these obligating events. In particular, a significant majority of respondents opposed the use of the claim is enforceable obligating event, arguing that it would limit the recognition of a liability to those cases where a legal obligation existed. Respondents argued that this was inconsistent with the *Conceptual Framework*, which recognizes that liabilities can arise from non-legally binding obligations.
- BC56. Respondents also argued that, once eligibility criteria have been satisfied, a present obligation that the entity would have little or no realistic alternative to avoid would usually arise. Consequently, a liability would arise prior to a claim being approved or becoming enforceable.
- BC57. The IPSASB concurred with respondents’ views, and decided that, for social benefits where there was a requirement to satisfy ongoing eligibility criteria only the ‘eligibility criteria to receive the next social benefit have been satisfied’ obligating event should be included in ED 63.
- BC58. In coming to this conclusion, the IPSASB noted that there may be social benefits where the eligibility criteria are not met until a claim has been approved or is enforceable. The IPSASB considered these obligating events to be effectively subsets of the ‘eligibility criteria to receive the next social benefit have been satisfied’ obligating event. Consequently, these obligating events did not need to be separately addressed.

Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Measurement Only

- BC59. As noted in paragraph BC50, the IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement.

- BC60. In developing ED 63, the IPSASB considered whether, for some other social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition.
- BC61. The IPSASB noted that for a liability to exist, there has to be a past event that gives rise to the liability. The IPSASB considered the nature of the past event for a social benefit and concluded that the past event is the satisfaction of all eligibility criteria, which may include being alive. Consequently, any liability that arises is only for the next social benefit. Additional liabilities only arise when all eligibility criteria are met for further social benefits.
- BC62. In coming to this conclusion, the IPSASB also had regard to a number of supporting points:
- (a) Accepting that the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition, could result in entities reporting present obligations for long-term social benefits for certain social benefit schemes (primarily old-age pensions). For other social benefit schemes, entities would recognize relatively short-term social benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).
 - (b) Being alive is an explicit eligibility criterion for some social benefit programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with this eligibility criterion. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, or others to report deaths. Further, many public sector entities retract social benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death. For other social benefit programs, being alive is an implicit eligibility criterion. Similar recovery action is taken where social benefits were improperly paid to beneficiaries who are not alive.
 - (c) Meeting all eligibility requirements creates an obligation to provide a social benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related social benefits are clearly established. For example, a social benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criteria.
 - (d) The requirement to satisfy ongoing eligibility criteria (including revalidation) is consistent with the approach the IPSASB proposed for universally accessible services and collective services in its CP, *Accounting for Revenue and Non-Exchange Expenses*.
- BC63. The IPSASB also considered paragraph 5.21 of the *Conceptual Framework*, which states (emphasis added):
- “Some obligations related to **exchange transactions** are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.”

- BC64. The IPSASB considered whether, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This would be as a result of legal obligations arising with the passage of time without the beneficiary having to take any further action or meet further conditions.
- BC65. The IPSASB concluded this was not appropriate. Paragraph 5.21 of the *Conceptual Framework* relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.
- BC66. Consequently, the IPSASB considered that the only appropriate obligating event is that all eligibility criteria for the next social benefit have been met. The IPSASB concluded that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the social benefit arises.
- BC67. The IPSASB also considered that there would be practical difficulties with recognizing a liability prior to all eligibility criteria for the next payment (including being alive) being satisfied. The IPSASB noted that approaches such as ‘threshold eligibility criteria have been met’ are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The IPSASB was not convinced that this would be the case in all instances, and considered that there may be situations where:
- (a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria to be satisfied; or
 - (b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria to be satisfied.
- BC68. The IPSASB considered that similar difficulties would arise with other obligating events that occur prior to all eligibility criteria being satisfied, such as ‘key participatory events have occurred’.
- BC69. The IPSASB considered that, under these alternative obligating events, determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen could only be determined on a case by case basis. The IPSASB considered that this would result in inconsistent application of any IPSAS based on ED 63, and considered that this was a further reason for not including the ‘threshold eligibility criteria obligating event’ in ED 63.
- BC70. The IPSASB concluded that only the ‘eligibility criteria for the next social benefit have been met’ recognition point should be included in ED 63, and that the accounting treatment should reflect that being alive may be an eligibility criterion (whether explicitly stated or implicit) that affects recognition.

Approach to Developing Exposure Draft 63

- BC71. In coming to the conclusion that only the ‘eligibility criteria for the next social benefit have been met’ recognition point should be included in ED 63, the IPSASB did not reach consensus, with some members holding the view that other recognition points should also be included in ED 63.

BC72. These members were of the opinion that prescribing a single recognition point applicable to all social benefits is inappropriate, as this approach:

- (a) Does not reflect the economic substance of different social benefits;
- (b) Is not in accordance with the *Conceptual Framework*; and
- (c) Treats “being alive” as a recognition criterion instead of a measurement criterion.

BC73. These members therefore proposed, in an Alternative View, that the obligating event should be dependent on the economic substance of each social benefit scheme. The conceptual basis for these members’ Alternative View is set out in paragraphs BC74–BC93 below.

Conceptual Basis for Alternative View

BC74. In the view of those members, for some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied would be appropriate. For other social benefits, a liability should be recognized at an earlier point. For example, a liability for all remaining benefits might be recognized when an individual reaches retirement age, or a liability might be accrued over time as an individual makes contributions. Preparers would determine which obligating event is most appropriate for their individual social benefit schemes, based on their economic substance.

The Approach Set Forth in ED 63 did not Reflect the Economic Substance of Different Social Benefits and thus did not Result in Information that Meets the Needs of Financial Statement Users

BC75. The members who proposed the Alternative View noted that the IPSASB’s constituents who responded to the Consultation Paper, *Recognition and Measurement of Social Benefits*, expressed substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. Therefore, these members did not dispute that in some cases a liability in respect of social benefits should be recognized only when the eligibility criteria for receipt of the next benefit (but not with the inclusion of being alive) have been satisfied, but they disputed this for other cases.

BC76. They considered that since social benefit schemes vary, they can give rise to differing expectations throughout the population as a whole. For example, a social benefit scheme designed to be funded by future beneficiaries (i.e., operating on a pay-as-you-go basis) will give rise to expectations at the reporting date of entitlement amongst current recipients and potential future recipients, for example, based on the fact that individuals have contributed in the past. A differently designed social benefit scheme may not give rise to equal expectations.

BC77. These members accepted that the relative validity of these expectations may differ, for example expectations may be based on a legal right to receive a benefit notified to the scheme’s recipients and participants, on a long running precedent, or on other, less compelling grounds. Thus they contended that the nature of the expectations in any given case must be taken into account in the determination of whether an entity has a realistic alternative to avoid an outflow of resources when recognizing a liability in relation to social benefits.

BC78. These members therefore considered that treating all social benefits in the same manner, regardless of different economic substance, would not provide users with the information they needed to assess social benefits.

- BC79. These members believed that financial statement users need relevant, faithfully representative information as to the economic substance of social benefits for their different decision making purposes, including, where relevant, assessing the intergenerational impacts of social benefits.
- BC80. For example, in respect of a state pension scheme designed to be funded on an inter-generational basis, the amount of the entity’s present obligation at the reporting date (excluding being alive as an entitlement criterion) to both current beneficiaries and participants provides useful information as to the magnitude as at the reporting date of pension payments that will need to be funded by future contributions from current and future participants.
- BC81. Not recognizing a liability at the reporting date beyond the next payment would not facilitate, for example, the reflection of changes in policy for state pensions (for example, raising retirement age) in the amount of the liability at a subsequent reporting date. It will also give a false message to current beneficiaries and participants as well as to future contributions as to the entity’s acknowledgement of their respective entitlements.
- BC82. Furthermore, not recognizing an obligation at the reporting date beyond the next payment does not reflect the economic substance of contributory schemes. Contributions will be shown as revenue when paid by the participant, whereas the part of the benefit that is earned with this payment will not be shown at this point in time as an obligation, but only (probably years later) when the payment is made to the then beneficiary, respectively the former participant.

The Approach Set Forth in ED 63 was not in Accordance with the IPSASB’s *Conceptual Framework*

- BC83. In the view of the members who proposed an Alternative View, the approach in ED 63 would not achieve the qualitative characteristics: relevance, faithful representation, understandability or comparability.
- BC84. These members also considered that reflecting the economic substance of a social benefit is necessary to meet the qualitative characteristic of comparability, which the *Conceptual Framework* defines as “the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena.” Therefore, these members disagreed with the argument of inconsistent application, as explained in paragraph BC69. In contrast these members contended that if the economic substance of the social benefits differs amongst schemes and jurisdictions, those differences should be reflected in the financial statements’ accounting for social benefits. This would be a consistent application of accounting principles to different economic phenomena resulting in different accounting outcomes.
- BC85. Consequently, these members considered that, for some social benefits, it would be appropriate to recognize a liability that exceeds the amount of benefit until the next point at which eligibility criteria are required to be satisfied. They noted that paragraph 8.15 of the IPSASB’s *Conceptual Framework’s* explains that disclosure (in the notes accompanying the financial statements) is not a substitute for display (on the face of a financial statement).
- BC86. They pointed out that the IPSASB’s *Conceptual Framework* states the following (emphasis added):

5.14. A liability is: A present obligation of the entity for an outflow of resources that results from a past event.

5.15. Public sector entities can have a number of obligations. A present obligation is a **legally binding obligation** (legal obligation) or **non-legally binding obligation**, which an entity

has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.

5.20. ...For some types of non-exchange transactions, judgement will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has no realistic alternative to avoid the obligation and a liability exists.

5.25. The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgements whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid an outflow of resources include:

- The nature of the past event or events that give rise to the obligation...
- The ability of the entity to modify or change the obligation before it crystallizes...
- There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation....

5.26. “Economic coercion”, “political necessity” or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.”

BC87. They contended that in accordance with the IPSASB’s *Conceptual Framework*, in some cases a liability may arise from a key participatory event that occurs prior to the eligibility criteria for the next benefit having been satisfied. This may be the case, for example, in respect of certain contributory social benefit schemes, or where there is a legally binding present obligation.

The Criterion “Being Alive” is not a Recognition Criterion, but a Measurement Criterion

BC88. These members did not consider that being alive at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the recognition of an entity’s present obligation in respect of all social benefits.

BC89. They noted that whilst it cannot be certain that a specific individual who meets the eligibility criteria at the reporting date will be alive at the point in time the next provision of social benefit is due, it is reasonable to assume that a measurable number of individual beneficiaries will be alive into the future and therefore the entity can have a binding present obligation at the reporting date in respect of provision of the social benefit beyond the next due installment of the social benefit.

BC90. They did not believe that there is a social benefit-specific imperative to treat “being alive” differently in comparison to its treatment in regard to other economic phenomena such as a pension payable as a post-employment benefit to public sector employees pursuant to IPSAS 39. Where applicable, reference to, e.g., mortality statistics etc. could equally be made in measuring liabilities for social benefits.

BC91. These members considered that the inclusion of being alive as a recognition criterion, resulting in a present obligation for only the next due benefit for all social benefits, would distort the recognition of entity’s present obligation in relation to social benefits, for example pension schemes, since in

many cases it would result in recognition of a liability for only the provision of the next social benefit. Such an approach fails to recognize the valid expectation of longevity in a given recipient population and cannot provide relevant information about social benefit schemes.

- BC92. In their view, being alive was therefore a criterion to be taken into account in the measurement of social benefit liabilities. In this context, they also noted that the material in ED 63 in regard to measurement might need further consideration in order to include being alive as a measurement criterion.
- BC93. The definition of a liability in the *Conceptual Framework* requires that an item can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports. The members who proposed the Alternative View recognized that accounting estimates are subject to inherent estimation uncertainty; this requirement can usually be met when recognizing liabilities existing at the reporting date for future payments for appropriate social benefits. Uncertainties as to the actual amount likely to be settled at a future date or the ability of the entity to settle would be reflected in the measurement of the liability. Uncertainties such as how many recipients will reach which age before dying are dealt with by reference to mortality statistics etc.

Arguments for Stakeholders' Consideration in ED 63

- BC94. As a consequence of the lack of consensus, the IPSASB agreed to develop ED 63 in a manner that would allow stakeholders to consider the different arguments. The 'eligibility criteria for the next social benefit have been met' recognition point was included in ED 63 as all members agreed that this would be appropriate for at least some social benefits. Other recognition points were not included in ED 63 as some members considered that these recognition points would never be an appropriate recognition point for a social benefit. In agreeing to develop ED 63 in this manner, the IPSASB noted that members who supported the inclusion of other recognition points had set out their reasoning in an Alternative View. The IPSASB considered it important from a public interest perspective that this reasoning was exposed to stakeholders.
- BC95. In agreeing to develop ED 63 in this manner, the IPSASB confirmed its previously expressed view that the financial statements cannot satisfy all of a user's information needs on social benefits. Further information about the long-term fiscal sustainability of those social benefit schemes is required. The IPSASB considered that adoption of the guidance in RPG 1 would provide users with the information they need. Consequently, the IPSASB agreed to encourage entities to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances. In so doing, the IPSASB also noted that such information would be equally helpful where an entity had adopted the insurance approach.

Responses to ED 63, *Social Benefits*

- BC96. The responses to ED 63 reflected the wide range of views that had surfaced during the IPSASB's deliberations in developing ED 63. While a number of respondents supported the proposals in ED 63, a similar number supported the approach outlined in the Alternative View (see paragraphs BC71–BC93 above).
- BC97. The reasons given by respondents for supporting either the proposals in ED 63, the Alternative View, or some variation on either of these approaches generally reflected the issues the IPSASB had debated in arriving at its proposed approach.

- BC98. Where new issues were raised by respondents, these generally reflected concerns that the information that would be presented under the Alternative View could be misunderstood. One respondent was concerned that the Alternative View, by recognizing liabilities at an earlier point, might provide perverse incentives to reduce the time span of social benefits and thus avoid recognition of bigger liabilities and bigger related expenses. Similarly, one respondent was concerned that the larger liabilities that would be recognized under the Alternative View could be misleading; in their view, a forward looking approach, taking account of future benefits and contributions, is required to assess the sustainability of social benefits such as state pensions.
- BC99. The IPSASB concluded that these issues reflected the Board's earlier debates about the users' information needs and the qualitative characteristics.
- BC100. The IPSASB noted that there was no consensus about whether recognizing a large liability for social benefits without also recognizing an asset for the future taxation or contribution revenue that would fund the settlement of that liability would provide useful information. There were different views as to whether the recognition or non-recognition of this liability would best satisfy the qualitative characteristics of relevance, faithful representation, understandability and comparability.
- BC101. However, because the consultation process had not generated any significant new conceptual issues, the IPSASB did not consider that undertaking further work in developing the conceptual approach to social benefits would be fruitful. The long history of the IPSASB's work on social benefits suggested that the strong views held by individuals on both sides of the argument were unlikely to be changed by any such further work at this stage.
- BC102. Consequently, the IPSASB agreed to proceed with an IPSAS based on the proposals in ED 63.
- BC103. In coming to this conclusion, the IPSASB noted that preparers' experiences of applying an IPSAS on social benefits along with users' experiences of using the information provided may suggest ways of better reconciling the different views that exist. The IPSASB therefore considered it likely that a post-implementation review of IPSAS 42 would be appropriate at some point in the future.
- BC104. In developing an IPSAS based on the proposals in ED 63, the IPSASB noted that many respondents, whether they supported the proposals in ED 63 or the Alternative View, were concerned that 'being alive' had been over-emphasized in the Exposure Draft. They considered that there were circumstances where reliance on being alive would be inappropriate. Some respondents also expressed concerns over the different treatment of 'being alive' in ED 63 and in IPSAS 39. However, a small minority of respondents considered that the reliance on being alive was necessary.
- BC105. The IPSASB considered these comments, and agreed to modify the requirements to reduce the emphasis on being alive. The IPSASB considered that in many cases, being alive would be an eligibility criterion, and that being alive would therefore affect recognition of a liability. The IPSASB acknowledged, however, that this might not always be the case, and that the IPSAS should reflect this.
- BC106. In making these changes, the IPSASB included additional guidance that the satisfaction of the eligibility criteria for each social benefit payment is a separate past event. Satisfaction of the eligibility criteria for a benefit beyond the next payment is a future event that does not give rise to a present obligation.
- BC107. In acknowledging that there had been significant support for the Alternative View, the IPSASB considered whether it would be appropriate to accommodate both accounting treatments in

IPSAS 42. This would permit preparers to use the Alternative View for social benefit schemes where they determine that a different past event to that proposed in ED 63 is appropriate. The IPSASB concluded that this would not satisfy the qualitative characteristic of consistency, and decided not to incorporate the accounting treatment set out in the Alternative View into IPSAS 42.

Use of Term “Resources”

BC108. In developing ED 63, the IPSASB included recognition requirements that referred to an entity having “a present obligation for an outflow of resources that results from a past event.” Following the decision to clarify that the definition of social benefits only includes cash transfers, the IPSASB debated whether the use of the term “resources” in the recognition requirements should be replaced with the term “cash transfers.” The IPSASB noted that the definition of a liability in the *Conceptual Framework* referred to “resources”, and as a consequence the Board agreed to retain that term in the recognition requirements.

Measurement

BC109. In developing the 2015 CP, the IPSASB came to a preliminary view that, “under the obligating event approach [general approach], liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.” The *Conceptual Framework* defines the cost of fulfillment as “the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.”

BC110. The IPSASB came to this view because:

- (a) Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a historical cost value could be based. Historical cost can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.
- (b) It is extremely unlikely that there will be a market value for social benefits.
- (c) In the context of social benefits, the cost of release is the amount that “a third party would charge to accept the transfer of the liability.” For social benefits, a transfer of the liability will rarely be practically possible.
- (d) Assumption price “is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.” This is not relevant to the measurement of social benefits under the general approach. Under this approach, the liability is viewed as arising as a result of the public sector entity’s own actions.

BC111. Respondents to the CP supported this view, as did respondents to ED 63. Consequently, the IPSASB agreed that liabilities in respect of social benefits should be measured using the cost of fulfillment (i.e., the social benefit payments to be made, discounted where the payment will not be made in the next year). In coming to this decision, the IPSASB agreed that the cost should refer to the cash transfer being made, and should not include other elements such as administrative costs and bank charges.

Revenue

BC112. At the time of developing IPSAS 42, the IPSASB had an ongoing project to review the requirements in all of its revenue standards. The IPSASB decided that social contributions (revenue in respect of a social benefit scheme) and similar compulsory contributions and levies would be best addressed in that project, to ensure that all revenue is accounted for on a consistent basis. However, as the IPSASB had concluded that social contributions are non-exchange transactions, the IPSASB agreed to amend IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to clarify that social contributions are accounted for in accordance with that Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit schemes accounted for under the insurance approach are not accounted for as revenue under IPSAS 23.

Disclosure

BC113. In developing ED 63, the IPSASB agreed that entities should disclose information that explains the characteristics of - its social benefit schemes; identifies and explains the amounts in its financial statements arising from its social benefit schemes; and quantifies and explains the future cash flows that may arise from its social benefit schemes.

BC114. The IPSASB considered whether to provide guidance on aggregating the disclosures for social benefit schemes that are not individually material. The IPSASB noted that IPSAS 1, *Presentation of Financial Statements*, contains guidance on materiality and aggregation, and concluded that no further guidance was required.

BC115. As part of the explanation of the characteristics of a social benefit scheme, the IPSASB agreed that an entity should explain how a social benefit scheme is funded. Where a scheme is funded, (whether in full or in part) by social contributions, an entity is required to provide a cross reference to the location of information on those social contributions. Although IPSAS 42 does not address social contributions (as explained in paragraph BC112 above), the IPSASB considers that users will need information about social contributions in order to make assessments of social benefit schemes. However, the IPSASB acknowledges that in some jurisdictions, social contributions for various social benefits may be collected by one entity, and the social benefits provided by another entity. In these circumstances, the entity that provides the social benefits would include a cross reference to the financial statements of the entity that collects the social contributions.

BC116. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB decided not to require such disclosures. However, in developing ED 63 the IPSASB agreed that providing the entity's best estimate of the projected cash outflows for the next five reporting periods would provide useful information for users of the financial statements. The IPSASB considered that such information would assist users in assessing the liquidity and solvency of the entity.

Responses to ED 63, Social Benefits

BC117. Respondents to ED 63 generally supported the proposed disclosures about the characteristics of an entity's social benefit schemes, and the IPSASB agreed to retain these disclosures in IPSAS 42.

BC118. Most respondents also supported the proposed disclosures of the amounts in the financial statements. However, some respondents questioned the level of detail required when presenting

the amounts in the financial statements. Given the likely short-term nature of the liabilities that would be recognized in respect of social benefits, these respondents did not consider that the proposed reconciliation (of the opening and closing balances of the liability) would provide any information that would not be available elsewhere in the financial statements. They considered that the requirement to present the reconciliation could be removed without any loss of information. The IPSASB concurred with the view of these respondents that the reconciliation of the liability was not necessary. The IPSASB did consider, however, that users would need information about the expenditure on each material social benefit scheme, and agreed to require the disclosure of this information rather than the reconciliation.

BC119. With regards to the proposed disclosure of future cash outflows, there was no consensus among respondents. Respondents, regardless of whether they supported the proposed disclosure or not, raised a number of issues:

- (a) Future cash flows are not required for other transactions (such as tax revenue).
- (b) Financial statements report on the current position of an entity, whereas future cash outflows are part of an entity's budget forecast information, not information about the current position.
- (c) Projections of outflows are best considered together with projections of inflows and are most useful when they are comprehensive, rather than focusing on a single social benefit scheme. In many cases, it would not be possible to project cash inflows for a single social benefit scheme as a number of social benefit schemes will be funded from the general tax take.
- (d) Disclosing future cash outflows could imply that the future cash outflows represent a liability or obligation, which is inconsistent with the general approach.

BC120. The IPSASB accepted the concerns raised by respondents, in particular the concern that the disclosure would go beyond reporting on the current position of an entity. Consequently, the IPSASB agreed to remove the requirement to disclose future cash outflows.

BC121. The IPSASB considered, however, that users would need some information to help them assess how circumstances may impact social benefit schemes. The IPSASB therefore agreed to require preparers to provide a narrative disclosure explaining the demographic, economic and other external factors that affect its social benefit schemes.

BC122. A further suggestion from respondents was that an entity should disclose where a social benefit scheme met the criteria to be accounted for using the insurance approach. The IPSASB agreed that this is important information about the characteristics of a social benefit scheme, and that an entity should disclose where the criteria for using the insurance approach had been satisfied.

Insurance Approach (paragraphs 26–31)

Application of the Insurance Approach

BC123. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed an approach based on insurance accounting for some or all contributory schemes. The IPSASB proposed that this approach should be based on the IASB's proposed IFRS Standard on insurance contracts, contained in Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). This ED has subsequently been further developed and issued as IFRS 17, *Insurance Contracts*.

BC124. Respondents to the CP generally supported the IPSASB's proposals regarding the insurance approach, although a number of concerns were raised. Respondents considered that the insurance

approach should only be applied in limited circumstances. These were that the social benefit scheme operated in a similar manner to an insurance contract, and that the scheme was funded from dedicated sources of revenue, not general taxation. Respondents considered that applying the insurance approach to other social benefit schemes would not faithfully represent the economic substance of those schemes.

BC125. The IPSASB concurred with this view. Consequently, the IPSASB agreed that the insurance approach should only be applied where:

- (a) The social benefit scheme is intended to be fully funded from contributions; and
- (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

BC126. In developing ED 63, the IPSASB then considered whether the insurance approach should be mandatory for social benefit schemes that meet the criteria, or optional.

BC127. The IPSASB considered that, for a social benefit scheme that meets the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to assess whether the entity is managing the financial performance of the social benefit scheme appropriately, users will need information as to whether the contributions are sufficient to meet the expected liabilities. Where a loss is recorded under the insurance approach, this will provide users with the information they need to question whether a scheme is sustainable without changes to contribution rates or benefits. Similarly, if a social benefit scheme has ongoing large surpluses, this will allow a debate as to whether that scheme is being used to subsidize other expenditure, and if so, whether this is appropriate. The IPSASB initially considered that the fact that users' needs are best met by the insurance approach was the main reason for making the insurance approach mandatory.

BC128. The insurance approach is, however, expected to be more costly and complex to implement than the general approach. Actuarial estimates may not be required under the general approach. The insurance approach will require estimates of cash inflows and cash outflows over the duration of the scheme. In addition, the IASB had only recently issued IFRS 17 and that Standard has significantly different requirements from many existing national standards dealing with insurance. Consequently, it may take some time for any practical issues to be fully identified and addressed. Applying these new requirements to social benefits would introduce a further level of complexity. The IPSASB considered that there may be cost/benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.

BC129. The IPSASB did note that, if an entity is managing a social benefit scheme as if it were a portfolio of insurance contracts, the entity may already have the information required to implement the insurance approach. It may also need that information in order to be able to effectively manage the social benefit scheme. This suggested that, where a social benefit scheme meets the criteria to be accounted for under the insurance approach, the costs associated with so doing may not be as high as it would initially appear.

BC130. The IPSASB considered that a further advantage of making the insurance approach optional would arise where an entity is having difficulty determining whether the criteria for applying the insurance

approach have been met. The entity could avoid expending additional resources to make that determination by electing to apply the general approach.

- BC131. However, the IPSASB accepted that making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users would not be provided with the most appropriate information about some social benefit schemes. Social benefit schemes that could be accounted for under the insurance approach are likely to have a different economic substance to other social benefit schemes, which the general approach may not fully capture.
- BC132. On balance, the IPSASB considered that the insurance approach should be optional, based on the cost/benefit reasons given above. The IPSASB noted that this could be revisited at a future date, once entities have experience with applying the new IFRS Standard, and the insurance approach proposed in ED 63.

Responses to ED 63, *Social Benefits*

- BC133. As discussed above, ED 63 proposed that the insurance approach should be optional. Respondents to ED 63 had mixed views on the proposal, with some respondents agreeing that the insurance approach should be optional, and others proposing that the insurance approach should be mandatory where schemes satisfied the criteria.
- BC134. The IPSASB noted that the reasons given by respondents reflected the Board's earlier discussions, with the key issue being whether the benefits of the better information that the insurance approach would provide would outweigh the cost of producing that information. Some respondents were also concerned that the existence of options within IPSAS may reduce the ability of users to make comparisons between entities.
- BC135. On balance, the IPSASB considered that no new information had arisen from the responses to ED 63 that was sufficiently persuasive to lead to a modification of the proposals in ED 63. The IPSASB therefore agreed to retain the insurance approach as an optional approach in this Standard.
- BC136. However, the IPSASB also considered that it would be appropriate to keep this issue under review, given the lack of consensus amongst respondents and the likelihood of practice developing as entities gained practical experience of implementing both this Standard and IFRS 17. This practical experience may cause the IPSASB to reconsider its view on the cost-benefit balance.
- BC137. Most respondents to ED 63 agreed that the criteria for determining whether an entity was permitted to apply the insurance approach were appropriate. However, some respondents had doubts regarding the requirement that the social benefit scheme is intended to be fully funded from contributions.
- BC138. These respondents considered that there would be cases where the requirements in IFRS 17 would be appropriate where a scheme was substantially funded from contributions rather than fully funded from contributions. A particular concern was that a scheme could be classed as fully funded by an individual entity, where another entity made contributions on behalf of those who could not afford to do so, but that the scheme would not be classed as fully funded in the consolidated financial statements. These respondents considered that the management of the scheme was more significant than the funding approach.

- BC139. The IPSASB noted these concerns. The IPSASB remained of the view that a scheme that was designed to be funded in part through general taxation was not being managed in the same way as an insurance portfolio.
- BC140. However, the IPSASB agreed that where an entity made contributions on behalf of those who could not afford to do so, these should be treated as contributions and the scheme classified as being fully funded from contributions. The IPSASB agreed to include Application Guidance to clarify this point.
- BC141. Some respondents also commented that the decision as to whether the criteria for applying the insurance approach have been satisfied should focus on substance over form. The IPSASB noted that substance over form is embedded in the *Conceptual Framework* notion of faithful representation. However, the IPSASB agreed that additional Application Guidance emphasizing the need to consider substance over form in assessing the criteria for applying the insurance approach would be helpful for preparers.

Accounting Requirements

- BC142. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed that the insurance approach should be based on the IASB's Exposure Draft.
- BC143. The IPSASB identified three options for introducing the insurance approach in ED 63:
- (a) Develop the insurance approach in ED 63. The IPSASB noted that this option would be consistent with the proposals in the CP, and would be tailored to social benefits. However, this option would significantly increase the duration of the project, and would not have wider application.
 - (b) Develop a separate IPSAS on insurance. The IPSASB noted that this would fill a gap in the IPSASB's literature and could address social benefits as well as having wider application. However, the IPSASB noted that such an IPSAS was not included in the IPSASB's work plan, and that developing an additional Standard would delay the social benefits project.
 - (c) Direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme that meets the criteria for applying the insurance approach. The IPSASB noted that this would require less resources and would ensure consistency with IFRS. However, guidance on social benefit specific issues might be required.
- BC144. The IPSASB noted that the number of preparers to whom the insurance approach will be relevant is likely to be small. The IPSASB also noted that the criteria for applying the insurance approach meant that only those social benefit schemes that were very similar to insurance contracts would be affected.
- BC145. The IPSASB concluded, therefore, that the additional time and resources required to develop the insurance approach, either in ED 63 or as a separate IPSAS on insurance, could not be justified. The IPSASB agreed to direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme:
- (a) That meets the criteria for applying the insurance approach; and
 - (b) Which the entity elects to account for under the insurance approach.

- BC146. The IPSASB then considered whether any guidance on social benefit specific issues was required when applying IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme. In particular, the IPSASB considered whether the arrangements in IFRS 17 in respect of the discount rate and the risk adjustment were appropriate for a social benefit scheme. In considering these questions, the IPSASB agreed to limit the application of the insurance approach to those cases where an entity would be referring to IFRS 17 or a national standard that has adopted substantially the same principles as IFRS 17. This is because other standards, for example IFRS 4, *Insurance Contracts* (and national standards based on IFRS 4) may not provide information that meets users' needs and satisfy the qualitative characteristics.
- BC147. The requirements in IFRS 17 specify that the selected discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract. The IPSASB noted that these requirements differ from those in IPSAS 39, *Employee Benefits*, where no liquidity adjustment is included in the discount rate.
- BC148. The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 39.
- BC149. The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid. In developing the CP, the IPSASB questioned whether the notion of a policy holder demanding a higher market yield is relevant where the terms of a social benefit are prescribed by government.
- BC150. For these reasons, the IPSASB came to the view, in developing the CP, that the discount rate used under the insurance approach should not include a liquidity adjustment. The IPSASB took the view at that time that the discount rate approach in IPSAS 39 was appropriate. Respondents to the CP generally concurred with this view.
- BC151. The IPSASB noted that IFRS 17 requires the use of a risk adjustment. In developing the CP, the IPSASB had noted that there were differing views on the appropriateness of a risk adjustment in the context of social benefits:

6.42 For some social security schemes, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and benefits provided is relatively stable. In these circumstances, information about the best estimate of the entity's liability related to the scheme may be most useful to users of the financial statements.

6.43 For other social security schemes, there may be significant uncertainty regarding future cash flows. In these circumstances, some consider that the use of the assumption price measurement basis may be more appropriate. They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the scheme. Others consider that the use of the assumption price measurement basis is not appropriate for the public sector where there is no third party that might assume the liability. They argue that applying a risk adjustment results in an estimate other than the best estimate of the claims on the

entity's resources in regard to the scheme; such an estimate may not be neutral and may therefore not satisfy the qualitative characteristic of faithful representation.

- BC152. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfillment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.
- BC153. In the light of these comments, the publication of IFRS 17 by the IASB, and the decision to direct preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy, the IPSASB revisited its conclusions in the CP.
- BC154. The IPSASB acknowledged that the views discussed in the CP were still valid. The IPSASB also accepted that adopting the discount rate included in IPSAS 39, and not including a risk adjustment, would produce greater consistency with social benefit schemes recognized and measured using the general approach. Conversely, retaining the discount rate included in IFRS 17, and retaining the risk adjustment, might result in significantly different amounts being included in the financial statements.
- BC155. In addition, the IPSASB considered that amending the requirements of IFRS 17 could only be achieved by undertaking significant due process on that standard, in order to ensure there were no unintended consequences. This would require a significant use of resources, which would defeat the IPSASB's intentions in directing preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy (see paragraph BC145 above).
- BC156. The IPSASB also noted that inconsistencies in the application of discount rates was a wider issue, and that a number of standard setters, including the IASB, were undertaking work on this area.
- BC157. Finally, the IPSASB noted that the insurance approach was optional, not a requirement (although, as noted in paragraph BC132 above, this might be subject to review at a later date). An entity that considered the use of different discount rates problematic could elect to account for all its social benefit schemes using the general approach.
- BC158. For these reasons, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes in ED 63.

Responses to ED 63, *Social Benefits*

- BC159. Respondents generally agreed with the IPSASB's proposal to direct preparers to IFRS 17 or national standards that have adopted substantially the same principles as IFRS 17:
- BC160. However, a minority of respondents considered that additional guidance on applying the insurance approach to social benefits would be helpful. In particular, these respondents considered that the IPSASB should provide guidance on discount rates and risk adjustments for social benefits, as these might be different than for commercial insurance contracts.
- BC161. The IPSASB accepted that providing guidance on discount rates and risk adjustments for social benefits might assist preparers to apply the insurance approach. However, for the reasons given in paragraphs BC154–BC158 above, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes.
- BC162. The IPSASB noted that entities would need to consider the requirements relating to discount rates and risk adjustments carefully. In particular, the risk adjustment is an entity specific adjustment, and entities will need to consider their unique circumstances in determining the risk adjustment.

BC163. The IPSASB also noted that some national standard setters are considering how the requirements in IFRS 17 (or national standards on insurance) in respect of discount rates and risk adjustments can be applied to social benefits and similar public sector specific transactions. The IPSASB considered that it would be appropriate for entities to consider such guidance once it becomes available.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 42

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 42.

Scope of IPSAS 42

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

IPSAS 42—SOCIAL BENEFITS

Category	Non-Exchange Expenses Project				Social Benefits	Other IPSAS/IFRS		
	Grants, Contributions and Other Transfers	Emergency Relief	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	Grants to other public sector entities Grants to charities	Emergency relief Planning and preparation activities	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Transaction?	Both	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	Sometimes	Sometimes	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	Sometimes	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	No	No	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	No	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS

Recognition and Measurement of Liabilities and Expenses in IPSAS 42

- IG3. **Where a retirement pension is paid monthly in arrears, will the liability at the reporting date be the same as the amount paid in the following month?**
- IG4. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:
- (a) Timing differences. The payment in the month following the reporting date may include payments that do not form part of the liability at that reporting date. For example, an entity prepares its financial statements as at December 31. If retirement benefits are paid on the 15th of each month, the payment made on January 15 may include payments made to individuals who reached retirement age between January 1 and January 15. The payments to these individuals will not form part of the liability as at December 31, because, at that date, those individuals had not met the eligibility criteria for the retirement pension.
 - (b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.
- IG5. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- IG6. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**
- IG7. For a social benefit scheme that has ongoing eligibility criteria (other than being alive, where this is an eligibility criterion) an individual may alternate between periods when they meet the eligibility criteria for the next social benefit payment, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognized and measured separately.
- IG8. For example, an entity prepares its financial statements as at December 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on January 10 and ceases to be eligible for the unemployment benefits. This employment ends on January 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment might be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 42

Scope and Definitions

Illustrating the Consequences of Applying Paragraphs 3–5 and AG1–AG10 of IPSAS 42

IE1. The following scenarios illustrate the process for determining whether a transaction is within the scope of IPSAS 42, *Social Benefits*. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 42.

Example 1—Provision of Retirement Benefits to Government Employees

IE2. Employees of Province A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided are based on the final salary of the employees, and their length of service.

IE3. The retirement benefits are cash transfers provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that the employees have sufficient income once they reach retirement age.

IE4. However, the retirement benefits do not address the needs of society as a whole, as they are only available to former employees of Province A. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of IPSAS 42. The retirement benefits are employee benefits, and are accounted for in accordance with IPSAS 39, *Employee Benefits*.

Example 2—Provision of State Retirement Pension

IE5. Government B pays a minimum state retirement pension to all citizens and residents who have reached the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the state retirement pension pays the same amount to each retiree regardless of the contributions made.

IE6. The retirement benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.

IE7. The retirement benefits address the needs of society as a whole. Paragraph AG7 of IPSAS 42 notes that the “assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.”

IE8. Consequently, the state retirement pension is within the scope of IPSAS 42.

Example 3—Provision of Universal Healthcare Services

- IE9. Government C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.
- IE10. The healthcare services are provided to specific individuals who meet eligibility criteria. The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.
- IE11. However, Government C is providing services rather than cash transfers. Consequently, the healthcare services are outside the scope of IPSAS 42.

Example 4—Provision of Disability Pensions

- IE12. State Government D pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.
- IE13. The disability pensions are provided as cash transfers to specific individuals who meet eligibility criteria. The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.
- IE14. Consequently, the disability pensions are within the scope of IPSAS 42.

Example 5—Provision of Unemployment Benefits

- IE15. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. The unemployment benefits are payable for a maximum of one year, and there is a two week 'waiting period' before the unemployment benefits are payable.
- IE16. The unemployment benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.
- IE17. Consequently, the unemployment benefits are within the scope of IPSAS 42.

Example 6—Provision of Emergency Relief

- IE18. Following an earthquake that has caused significant damage in a region, Government F provides emergency relief to assist with reconstruction and with providing services such as temporary housing to those affected by the earthquake.
- IE19. Some costs will relate to providing benefits as cash transfers to specific individuals who meet eligibility criteria. Other costs will relate to the provision of assets and services, for example the reconstruction of roads damaged by the earthquake.
- IE20. The provision of assets, such as the reconstruction of roads, or services to specific individuals is not a cash transfer and consequently is outside the scope of IPSAS 42.

- IE21. The emergency relief provided as cash transfers does not mitigate the effects of social risks, but instead mitigates the effects of a geographical risk – the risk of earthquake. Paragraph AG10 of IPSAS 42 explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks. Consequently, the emergency relief is outside the scope of IPSAS 42.
- IE22. Following a natural disaster, individuals and/or households may subsequently become eligible for other benefits, for example unemployment benefits. These benefits may be social benefits if they satisfy the definition of a social benefit (including the requirements that they are cash transfers and they mitigate social risks).

Example 7—Provision of Defense Services

- IE23. Government G maintains an army, navy and air force to provide defense for the country.
- IE24. These defense services are not cash transfers provided to specific individuals who meet eligibility criteria, but instead are collective services, in that:
- (a) They are delivered simultaneously to each member of the community or section of the community; and
 - (b) Individuals cannot be excluded from the benefits of collective goods and services.
- IE25. Consequently, the provision of defense services is outside the scope of IPSAS 42.

General Approach: Recognition and Measurement

Illustrating the Consequences of Applying Paragraphs 6–21 and AG11–AG18 of IPSAS 42

Example 8

- IE26. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.
- IE27. Government H provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU250 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.
- IE28. Government H prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.
- IE29. As at December 31, 20X1, Government H recognized a liability for retirement pensions of CU1,950,500. During 20X2, Government H paid retirement pensions as follows:

Month(s)	Pensions Paid (CU)
January 20X2	1,950,500
February–December 20X2	22,258,000
Total	24,208,500

- IE30. During January 20X3, Government H pays retirement pensions totaling CU2,095,750.

- IE31. As at December 31, 20X2, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Consequently, Government H recognizes a liability of CU2,095,750, the full amount of the retirement pensions paid in January.
- IE32. During 20X2, the total amount recognized as an expense is CU24,353,750. The breakdown of this amount is as follows:

	CU
Pensions paid in February 20X2 (recognized in January 20X2) to December 20X2 (recognized in November 20X2)	22,258,000
Pensions paid in January 20X3 (recognized in December 20X2)	2,095,750
Total	<u>24,353,750</u>

Example 9

- IE33. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.
- IE34. Government I provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.
- IE35. Government I prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.
- IE36. As at December 31, 20X7, Government I recognized a liability for retirement pensions of CU2,990,656. During 20X8, Government I paid retirement pensions as follows:

Month(s)	Pensions Paid (CU)
January 20X8	3,024,997
February–December 20X8	33,435,183
Total	<u>36,460,180</u>

- IE37. In this example, it is assumed that Government I has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).

- IE38. On January 31, 20X9, Government I pays retirement pensions totaling CU3,053,576. There are three elements to this payment:

	CU
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

- IE39. As at December 31, 20X8, Government I recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Government I uses the information available at that time to prepare its financial statements.

- IE40. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (CU36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

- IE41. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	CU
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9 (recognized in December 20X8)	36,420
Total	36,485,544

Example 10

- IE42. The following example illustrates the process for recognizing and measuring the liability and expense for an unemployment pension. This example is not based on actual transactions.

- IE43. State Government J provides unemployment benefits to its citizens and permanent residents. The unemployment benefit scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of CU500 per month (in arrears). Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid

employment in the State for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in the months in which an individual's eligibility comes to an end (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the State or dying).

- IE44. State Government J prepares its financial statements as at June 30. Unemployment benefits are paid on the 15th day of each month.
- IE45. As at June 30, 20X1, State Government J recognized a liability for unemployment benefits of CU125,067. During the financial year July 1, 20X1–June 30, 20X2, State Government J paid unemployment benefits as follows:

Month	Unemployment Benefits Paid (CU)
July 20X1	129,745
August 20X1–June 20X2	1,582,131
Total	<u>1,711,876</u>

- IE46. In this example, it is assumed that State Government J has complete information at the date it pays unemployment benefits. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).
- IE47. On July 15, 20X2, State Government J pays unemployment benefits totaling CU132,952. There are four elements to this payment:

	CU
Unemployment benefits paid to unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between July 1, 20X2 and July 15, 20X2	<u>4,812</u>
Total	<u>132,952</u>

- IE48. As at June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government J uses the information available at that time to prepare its financial statements.
- IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:
- (a) The unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2 (CU113,120);

- (b) The pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2 (CU9,975); and
- (c) The pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).

IE50. The liability does not include the pro-rated unemployment benefits paid to those who became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.

IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:

	CU
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those remaining eligible and those whose eligibility had come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	128,140
	1,714,949

Comparison with GFS

In developing IPSAS 42, *Social Benefits*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 42 uses similar concepts as GFS. For example, the concept of “social risk” in GFS is a defined term in IPSAS 42 that underpins the definition of social benefits.
- IPSAS 42 adopts a narrower definition of social benefits than GFS. IPSAS 42 limits its definition of social benefits to cash transfers (including cash equivalents). Under GFS, social benefits can be provided in cash or in kind (for example, health services).
- Under IPSAS 42, an entity recognizes a liability for the cash transfers that the entity will make until the next point at which eligibility criteria are required to be satisfied. Generally, no such liability is recognized in GFS for social benefits although liabilities are recorded for funded social insurance schemes.
- IPSAS 42 permits relevant social benefits to be recognized and measured using the insurance approach. GFS does not include this option.
- IPSAS 42 includes disclosure requirements that are not present in GFS.

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Published by:



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Final Pronouncement
January 2020

IPSAS®

International Public Sector Accounting Standard®

Collective and Individual
Services (Amendments to
IPSAS 19, *Provisions,
Contingent Liabilities and
Contingent Assets*)

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COLLECTIVE AND INDIVIDUAL SERVICES (AMENDMENTS TO IPSAS 19)

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Purpose

1. The purpose of these amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, is to provide guidance on determining whether a provision arises for collective and individual services. These transactions may have been previously encompassed in the wide description of social benefits in the IPSAS 19 scope exclusion. Following the publication of IPSAS 42, *Social Benefits*, the IPSASB has adopted a narrower definition of social benefits that excludes collective and individual services. Consequently, the IPSASB decided to provide guidance on whether a provision arises for collective and individual services through amendments to IPSAS 19.

IPSAS Addressed

IPSAS	Summary of Change
IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Provide guidance on determining whether a provision arises for collective and individual services.
IPSAS 42, <i>Social Benefits</i>	Consequential amendment to refer to the guidance in IPSAS 19 for certain transactions outside the scope of IPSAS 42.

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 6A and 111J are added and paragraph 18 is amended. New text is underlined.

The Application Guidance in Appendix A (paragraphs AG1–AG20) and the section of the Basis for Conclusions discussing *Collective and Individual Services* (Amendments to IPSAS 19) (paragraphs BC6–BC21) are added. Because these are new sections, no mark-up has been used.

...

Scope

...

6A. This Standard provides guidance on determining whether, and if so, when, a provision arises from collective and individual services (paragraphs AG2–AG20).

...

Definitions

18. The following terms are used in this Standard with the meanings specified:

Collective services are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.

...

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

...

Effective Date

...

111J. Paragraphs 6A and AG1–AG20 were added and paragraph 18 was amended by *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2022 it shall disclose that fact and apply IPSAS 42, *Social Benefits*, at the same time.

...

Application Guidance

This Appendix is an integral part of IPSAS 19

Introduction

AG1. This Appendix provides guidance on determining whether a provision arises for collective and individual services. These transactions do not meet the definition of social benefits in IPSAS 42, *Social Benefits* (and are therefore outside the scope of that Standard). This Appendix addresses the question of whether a provision needs to be recognized for these transactions before the services are delivered.

Collective and Individual Services

Scope of Collective and Individual Services

- AG2. This Standard defines collective services as services provided by a public sector entity simultaneously to all members of the community and are intended to address the needs of society as a whole. The provision of a collective service to one individual does not reduce the amount available to other individuals; there is no rivalry in the consumption of collective services. Consumption of collective services is usually passive and does not require the explicit agreement or active participation of those benefiting from the service.
- AG3. This Standard defines individual services as goods and services provided to individuals and households by a public sector entity and are intended to address the needs of society as a whole. The provision of an individual service to one individual may reduce the amount available to other individuals, or may delay the receipt of those services by some individuals. Consumption of individual services requires the explicit agreement or active participation of those benefiting from the service. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.
- AG4. Social benefits and collective and individual services all address the needs of society as a whole. Addressing the needs of society as a whole does not require that each collective or individual service covers all members of society; such services can cover different segments of society. A collective or individual service that covers a segment of society as part of a wider system of similar services meets the requirement that it addresses the needs of society as a whole.
- AG5. Collective services and individual services involve the provision of services by, or on behalf of, a public sector entity. Consequently, cash transfers are not collective or individual services.
- AG6. Public sector entities provide collective and individual services through their employees or by purchasing goods and services from third party providers.
- AG7. Examples of collective services include defense and street lighting. Examples of individual services include healthcare and education provided at no or nominal cost. Individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement; however, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.

- AG8. Collective services are provided to a community rather than to individuals, which distinguishes them from individual services and social benefits. Individual services involve the delivery of services to individuals and/or households, which distinguishes them from social benefits that involve cash transfers (including cash equivalents such as pre-paid debit cards).
- AG9. In some jurisdictions, individuals may pay for services, for example healthcare, and subsequently be reimbursed by a public sector entity. The substance of these reimbursements is that the public sector entity is paying for the services, and the transaction is an individual service rather than a social benefit.
- AG10. The following table compares the key characteristics of social benefits (as defined in IPSAS 42), individual services and collective services.

	Social Benefits	Individual Services	Collective Services
Involves a cash transfer to eligible beneficiaries?	✓	✗	✗
Provided to individuals and/or households rather than to a community?	✓	✓	✗
Intended to address the needs of society as a whole?	✓	✓	✓

No Provision Recognized for Collective Services before the Services are Delivered

- AG11. An intention to deliver collective services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to a present obligation.
- AG12. Collective services are ongoing activities of the public sector entity that delivers the services. Paragraph 26 of this Standard states that “no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future.” Consequently, in accordance with the principles of this Standard, no provision is recognized for the intention to deliver such services.
- AG13. In delivering collective services, a public sector entity acquires resources and incurs 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 defense staff, the acquisition of non-current assets used in delivering those services, and the purchase of collective services from a third-party provider. These contracts or other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver collective services to the public.

No Provision Recognized for Individual Services before the Services are Delivered

- AG14. An intention to deliver individual services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to

a present obligation. There are no past events that give rise to a liability for collective or individual services. As noted in paragraph AG7, individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement. However, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.

- AG15. The delivery of individual services is an ongoing activity of the public sector entity that provides the services. The delivery of individual services results in the public sector entity acquiring resources and incurring expenses, usually through contracts or other binding arrangements.
- AG16. The public sector entity uses these resources to deliver services to specific individuals and/or households. Where individuals and/or households access individual services, the entity may have a number of future obligations relating to the delivery of these individual services. Such obligations are an aspect of the ongoing activities of the public sector entity. Similar to collective services, and in accordance with the principles of this Standard, no provision is recognized for the intention to deliver such services prior to individuals and/or households accessing the services.
- AG17. Examples of the resources acquired and expenses incurred in delivering individual services include the pharmaceuticals or medical supplies used in delivering healthcare, the salaries paid to acquire the services of teachers, the acquisition of non-current assets used in delivering those services (for example, a hospital or an ambulance), and the purchase of individual services from a third-party provider. These contracts and other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver individual services to the public.

Presentation and Disclosure of Collective and Individual Services

- AG18. An entity shall present and disclose information about collective services and individual services in accordance with other IPSAS, including IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements* and IPSAS 18, *Segment Reporting*.
- AG19. IPSAS 1 requires an entity to “present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.”
- AG20. Where an entity presents information based on the nature of expenses, collective services and individual services will be included in items such as employee benefit costs. Where an entity presents information based on the function of the expenses within the entity, collective services and individual services may be presented as individual line items or amalgamated with similar items depending upon their materiality.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 19.

...

Revision of IPSAS 19 as a result of *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020.

Collective and Individual Services

- BC6. When IPSAS 19 was first issued, “provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits” were excluded from the scope of the Standard. IPSAS 19 described social benefits in wide terms as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
 - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”
- BC7. IPSAS 42, *Social Benefits*, was issued in January 2019. IPSAS 42 amended IPSAS 19, which now excludes from its scope social benefits within the scope of IPSAS 42 (i.e., cash transfers (including cash equivalents) provided to mitigate the effect of social risks, rather than the wider range of transactions previously referred to as social benefits). A consequence of this amendment was to bring within the scope of IPSAS 19 any provisions and contingent liabilities arising from transactions that were previously excluded from the scope of IPSAS 19, but which are not within the scope of IPSAS 42. The IPSASB therefore agreed to provide guidance on accounting for these transactions. As was previously noted in IPSAS 19, a key issue for stakeholders was whether a provision arose in respect of those transactions.
- BC8. Such transactions were referred to in the IPSASB’s Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* (issued in August 2017), as “collective services” and “universally accessible services.” (As explained in paragraph BC10, the IPSASB later decided to replace the term “universally accessible services” with the term “individual services.”) In that CP, the IPSASB expressed a preliminary view that “non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient.” As a result, a performance obligation approach to recognizing a non-exchange expense for these transactions would not be appropriate. Respondents to the CP generally supported that preliminary view.
- BC9. In the CP, the IPSASB noted that “a public sector entity may have a number of future obligations relating to the provision of universally accessible services and collective services. Such obligations are an aspect of the ongoing activities of governments and other public sector entities; however, only present obligations give rise to liabilities. The expected future sacrifice of resources

does not of itself mean that there is a present obligation. Therefore, the IPSASB is of the view that universally accessible services and collective services do not give rise to obligating events and therefore liabilities or expenses do not arise prior to the delivery of those services to beneficiaries.”

- BC10. Respondents to the CP also generally supported this view, and the IPSASB agreed to provide Application Guidance on accounting for these transactions in line with the approach set out in the CP. The IPSASB also noted that some respondents considered that the term “universally accessible services” was confusing. The IPSASB agreed to avoid this term, and instead agreed to adopt the term “individual services”, which is consistent with the term used in Government Finance Statistics (GFS) and with the term used in the IPSASB’s earlier work on social benefits.
- BC11. The IPSASB agreed that, because liabilities or expenses for the delivery of collective and individual services do not arise prior to the delivery of those services to beneficiaries, it is appropriate to account for the delivery of these services in accordance with other IPSAS. For example, IPSAS 39, *Employee Benefits*, covers the expenses incurred in employing staff to deliver these services, IPSAS 12, *Inventories*, covers the expenses incurred in delivering goods to individuals and households, and IPSAS 41, *Financial Instruments*, covers the financial liability that may be incurred in acquiring goods or services.
- BC12. In agreeing that liabilities or expenses for the delivery of collective and individual services do not arise prior to the delivery of those services to beneficiaries, the IPSASB noted that although the nature of collective and individual services are different, the rationale for why a provision does not arise earlier for both these expense categories was similar. The IPSASB agreed that the guidance should reflect this.
- BC13. The IPSASB noted that collective services are ongoing activities of government. Paragraph 26 of IPSAS 19 states that “no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future”. Consequently, the IPSASB agreed that recognizing a provision for collective services would be contrary to the requirements of paragraph 26 of IPSAS 19.
- BC14. The IPSASB noted that individual services are ongoing activities of government, in the same way as collective services, and that recognizing a provision for such services would also be contrary to the requirements of paragraph 26 of IPSAS 19.
- BC15. The IPSASB considered whether specific disclosures for collective and individual services were required, and concluded that the existing requirements in IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements*, and IPSAS 18, *Segment Reporting*, and the various IPSAS dealing with the specific transactions would provide sufficient information to meet users’ needs. Consequently, the IPSASB agreed not to require any specific disclosures for collective and individual services.

Responses to ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19)

- BC16. The IPSASB issued its proposals in ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) in January 2019.
- BC17. Respondents generally supported the proposals in respect of collective and individual services, but raised a number of issues for the IPSASB to consider in finalizing the amendments.

BC18. A number of these issues related to the definitions of collective services and individual services. The IPSASB decided not to make any changes to the definitions, for the following reasons:

- (a) Some respondents questioned whether two definitions were required when the accounting treatment was the same. The IPSASB considered that the fact that the nature of collective services is different from the nature of individual services meant that retaining separate definitions was appropriate. The IPSASB also noted that this would be consistent with the approach in GFS.
- (b) Respondents commented that collective and individual services are non-cash transactions and that this should be reflected in the definitions. The IPSASB decided to make specific reference to the non-cash nature of collective and individual services in the Application Guidance.
- (c) Some respondents questioned why the definition of collective services did not refer to goods, unlike the definition of individual services. The IPSASB noted that the assets (such as lamp posts) that are used to deliver collective services are referred to in GFS as collective goods. However, such assets remain under the entity's control and are not transferred to service recipients. Consequently, the IPSASB agreed not to include goods in the definition of collective services.
- (d) A respondent proposed amending the definitions of collective services and individual services to refer to services that are continually provided. The IPSASB considered that this was already implicitly addressed in the description of collective services and individual services as ongoing activities of public sector entities, and agreed that no change to the definitions was needed. The IPSASB noted that a consequence of the fact that collective and individual services are continually provided is that no provision is recognized because the past event that gives rise to a present obligation occurs simultaneously with the provision of services that satisfies that obligation.

BC19. Further issues related to the accounting for collective and individual services. There was strong support for the proposals that a provision should not be recognized for these transactions, but some respondents considered that the rationale needed to be strengthened. In considering these comments, the IPSASB came to the following conclusions:

- (a) Some respondents commented that as well as being ongoing activities of a public sector entity, collective and individual services were not independent of an entity's future actions, as described in paragraph 27 of IPSAS 19. These respondents considered that this should be discussed in the final pronouncement. The IPSASB accepted that this would be true in some cases, but noted that in many jurisdictions, there is a legal requirement for a government or other public sector entity to provide collective services. While there may be elements of discretion in how the services are delivered, the obligation to provide services remains. Consequently, the IPSASB agreed not to include this issue
- (b) Respondents noted that in IPSAS 42, the IPSASB had acknowledged that some stakeholders considered that an entity having to recognize large liabilities for services to be delivered in the future without the recognition of future taxes to pay for those services is unlikely to meet the objectives of financial reporting and satisfy the qualitative characteristics. Respondents considered that this rationale applied equally to collective and individual services. The IPSASB concurred.

- (c) Some respondents commented that while no provision arises from an entity's intentions to deliver collective and individual services to the public, a provision might arise from the binding arrangements through which those services are provided. The IPSASB concurred and agreed to include additional guidance to this effect.
- (d) Some respondents raised concerns regarding the proposed treatment of vouchers in ED 67, and questioned whether they should be treated in same way as loyalty programs such as airlines' frequent flier programs. The IPSASB accepted these concerns, and noted that the appropriate treatment (in terms of the past event and therefore the recognition point) will vary depending on the conditions attached to the vouchers. The IPSASB agreed it was inappropriate to develop guidance for all these circumstances.

Emergency Relief

BC20. The IPSASB included proposals for accounting for emergency relief in ED 67. While many respondents were supportive of providing such guidance, several issues were raised. Respondents considered that a definition of emergency relief would be required, notwithstanding the fact that the diverse practices across jurisdictions makes this difficult. Respondents also questioned whether the proposed distinction between emergency relief that is an ongoing activity of government and emergency relief provided in response to specific emergencies was always appropriate, and whether it could be applied consistently. Respondents further questioned how other assistance that did not fall within the scope of emergency relief should be accounted for.

BC21. In light of these concerns, the IPSASB decided not to proceed with the guidance on emergency relief proposed in ED 67. The IPSASB decided to consider the topic in developing its Mid-Term Work Program Consultation 2021.

...

Comparison with IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

...

- IPSAS 19 contains the definitions of technical terms used in IAS 37, and an additional definition for "executory contracts."
- IPSAS 19 provides additional guidance on collective and individual services. It explains that public sector entities do not recognize a provision for collective and individual services.
- The Implementation Guidance has been amended to be more reflective of the public sector.

...

Amendments to IPSAS 42, *Social Benefits*

Paragraphs 4A and 35A are added. New text is underlined

...

Scope

...

4A. Collective services and individual services (as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*) are not social benefits. Guidance on determining whether a provision arises for these transactions is provided in IPSAS 19.

...

Effective Date

...

35A. Paragraph 4A was added by *Collective and Individual Services (Amendments to IPSAS 19)*. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is encouraged.

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May 2023

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Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are the recognition of the assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

Scope (see paragraphs AG1-AG7)

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except when another Standard requires or permits a different accounting treatment.**
3. This Standard does not apply to:
 - (a) Biological assets related to agricultural activity other than bearer plants (see IPSAS 27, *Agriculture*). This Standard applies to bearer plants but does not apply to the produce on bearer plants;
 - (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);
 - (c) Property, plant, and equipment classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and
 - (d) The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with measurement of exploration and evaluation assets).

However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(a), 3(b) and 3(d).

4. An entity using the historical cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the historical cost model in this Standard for owned investment property.

Definitions (see paragraphs AG8-AG11)

5. **The following terms are used in this Standard with the meanings specified:**

Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Class of property, plant, and equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Property, plant, and equipment are tangible assets that:

- (a) **Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**
- (b) **Are expected to be used during more than one reporting period.**

The **residual value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) **The period over which an asset is expected to be available for use by an entity; or**
- (b) **The number of production or similar units expected to be obtained from the asset by an entity.**

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

The following terms are defined and are used in this Standard with the same meaning as in IPSAS 46, *Measurement*:

- (a) **Historical cost;**
- (b) **Current operational value; and**
- (c) **Fair value.**

The term **recoverable service amount** is defined in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and is used in this Standard with the same meaning as in IPSAS 21.

The term **recoverable amount** is defined in IPSAS 26, *Impairment of Cash-Generating-Assets* and is used in this Standard with the same meaning as in IPSAS 26.

The term **bearer plant** is defined in IPSAS 27 and is used in this Standard with the same meaning as in IPSAS 27.

Recognition (see paragraphs AG12-AG16)

- 6. **An item of property, plant, and equipment shall be recognized if, and only if:**
 - (a) **It is probable that future economic benefits or service potential associated with the item will flow to the entity; and**
 - (b) **The item can be measured reliably¹.**
- 7. If an entity holds heritage property, plant, and equipment that meets the definition of an asset, but which does not meet the recognition criteria in paragraph 6(b), information as required by paragraph 77 shall be disclosed in the notes to the financial statements. When information about the cost or current value of the heritage property, plant, and equipment becomes available, the entity shall, from that date, recognize the heritage property, plant, and equipment in accordance with paragraph 6 and apply the measurement principles in this Standard.

¹ 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.

8. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to (a) disaggregate individually significant items, such as floors of a building, into separate units of account when the objective for which the entity holds the building is both for operational and financial capacity or (b) aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.
9. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire, construct or develop an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant, and equipment, such as depreciation of right-of-use assets.
10. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition, construction, or development of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired, constructed, or developed. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21 and IPSAS 26.

Initial Measurement (see paragraphs AG17-AG19)

11. **An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, as described in paragraphs 14-19, unless it is acquired through a non-exchange transaction.**
12. **Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost. An entity shall apply IPSAS 46 when measuring deemed cost of an item of property, plant, and equipment.**
13. For the purposes of this Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its deemed cost consistent with the requirements of paragraph 12, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 29, and the supporting Application Guidance, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.

Elements of Cost

14. The cost of an item of property, plant, and equipment comprises:
 - (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
 - (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

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- (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
15. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the acquisition, construction, or development of the item of property, plant, and equipment;
 - (b) Costs of site preparation;
 - (c) Initial delivery and handling costs;
 - (d) Installation and assembly costs;
 - (e) Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and
 - (f) Professional fees.
16. An entity applies IPSAS 12, *Inventories*, to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and this Standard are recognized and measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.
17. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:
- (a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
 - (b) Initial operating losses, such as those incurred while demand for the item's output builds up; and
 - (c) Costs of relocating or reorganizing part or all of the entity's operations.
18. Items may be produced while bringing an item of property, plant, and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognizes the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IPSAS 12.
19. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be

capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.

Measurement of Cost

20. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 12, its deemed cost at the recognition date. If payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.
21. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at its current value unless the exchange transaction lacks commercial substance, or the current value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at current value, its cost is measured at the carrying amount of the asset given up.
22. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial 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 portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the current value of the assets exchanged.

For the purpose of determining the portion of the entity's operations affected by the transaction, as in paragraph 22(b), the entity calculates the present value of the expected cash flows, (or post-tax cash flows when tax applies), to arise from the continuing use of an asset and from its disposal at the end of its useful life. The result of these analyses may be clear without an entity having to perform detailed calculations.
23. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value. If an entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Subsequent Measurement (see paragraphs AG20-AG36)

24. **An entity shall choose either the historical cost model in paragraph 26 or the current value model in paragraph 27 as its accounting policy and shall apply that policy to an entire class of property, plant, and equipment.**
25. **When the measurement requirements are applied to the item of property, plant, and equipment after recognition, an entity shall apply IPSAS 46.**

Historical Cost Model

26. **After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses.**

Current Value Model (see paragraphs AG20-AG23)

27. **After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. The primary objective for which an entity holds an item or part of an item of property, plant, and equipment determines the current value measurement basis. An item or part of an item of property, plant, and equipment held primarily for its operational capacity is measured at current operational value, and when it is held primarily for its financial capacity is measured at fair value.**
28. The measurement basis used to measure current value, either current operational value or fair value, shall be applied consistently to an item or part of an item of property, plant, and equipment at each measurement date, unless the primary objective for which the entity holds an item or part of an item of property, plant, and equipment has changed. In that case a change in the current value measurement basis, from current operational value to fair value, or vice versa, is appropriate.
29. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 36-38.**
30. The frequency of revaluations depends upon the changes in current values of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in current value. Instead, it may be necessary to revalue the item only every three or five years.
31. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:
 - (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

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(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 36 and 37.

32. **If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.**
33. Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26 do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.
34. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:
- (a) Land;
 - (b) Operational buildings;
 - (c) Machinery;
 - (d) Ships;
 - (e) Aircraft;
 - (f) Weapons systems;
 - (g) Motor vehicles;
 - (h) Furniture and fixtures;
 - (i) Office equipment;
 - (j) Oil rigs;
 - (k) Bearer plants;
 - (l) Heritage collections; and
 - (m) Infrastructure.

When grouping property, plant, and equipment into classes, an entity may identify items with similar nature, but held for different functions, or vice versa. For example, while various parcels of land might be similar in nature, some may be held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and presenting information using historical cost for one class and current value for the other.

35. The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
36. **If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**

37. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**
38. **Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.**
39. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.
40. Guidance on the effects of taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes.

Depreciation (see paragraphs AG24-AG36)

41. **Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.**
42. A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.
43. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.
44. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.
45. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**
46. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset, and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31, *Intangible Assets*.

Depreciable Amount and Depreciation Period (see paragraphs AG25-AG27)

47. **The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**
48. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
49. Depreciation is recognized even if the current value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed, and/or the asset tested for impairment in accordance with paragraph 59, and adjusted accordingly.
50. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Buildings generally have a finite useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
51. If the carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a finite useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Finite and Indefinite Useful Lives (see paragraphs AG28-AG32)

52. An entity shall assess whether the useful life of property, plant, and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting that useful life. Land usually has an indefinite useful life. There is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. Property, plant, and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to, or be used to generate net cash inflows for the entity.
53. An item of property, plant, and equipment with a finite useful life is depreciated. An item of property, plant, and equipment with an indefinite useful life is not depreciated.
54. The term "indefinite" does not mean "infinite." The useful life of property, plant, and equipment should reflect evidence on factors that could affect the useful life at the time of estimating the asset's useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means that they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, a conclusion that the useful life of property, plant, and equipment is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current standard of performance. Nor should such a conclusion depend on preservation actions for which there is no realistic likelihood under present or projected budget constraints.

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55. The useful life of an item of property, plant, and equipment may be very long or even indefinite. Uncertainty about an asset's useful life when it is very long does not justify choosing a life that is unrealistically short.

Annual Impairment Reviews for Assets with Indefinite Useful Lives

56. An entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21 and IPSAS 26.

Depreciation Method (see paragraphs AG33-AG34)

57. **The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.**
58. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**

Impairment

59. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

Compensation for Impairment

60. **Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.**
61. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase, construction, or development of replacement assets are separate economic events and are accounted for separately as follows:
- (a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;
 - (b) Derecognition of items of property, plant, and equipment retired or disposed of is determined in accordance with this Standard;
 - (c) Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and
 - (d) The cost of items of property, plant, and equipment restored, purchased, constructed, or developed as replacement is determined in accordance with this Standard.

Derecognition

62. **The carrying amount of an item of property, plant, and equipment shall be derecognized:**
- (a) **On disposal; or**

- (b) **When no future economic benefits or service potential is expected from its use or disposal.**
63. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 43, Leases requires otherwise on a sale and leaseback).**
64. 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 the date of disposal of an item, an entity applies the criteria in IPSAS 9, *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods. IPSAS 43 applies to disposal by a sale and leaseback.
65. If, under the recognition principle in paragraph 6, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired, constructed, or developed.
66. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**
67. The consideration receivable on disposal of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable.
68. However, an entity that, in the course of its activities, routinely sells 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 from the sale of such assets shall be recognized as revenue in accordance with IPSAS 9. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

Disclosure

General Disclosure for Property, Plant, and Equipment

69. **The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:**
- (a) **The measurement bases used for determining the gross carrying amount;**
 - (b) **The depreciation methods used;**
 - (c) **The useful lives or the depreciation rates used;**
 - (d) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**
 - (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**
 - (i) **Additions;**

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- (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals ;**
 - (iii) **Acquisitions through public sector combinations;**
 - (iv) **Increases or decreases resulting from revaluations under paragraphs 29, 36, and 37 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
 - (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
 - (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
 - (vii) **Depreciation;**
 - (viii) **The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**
 - (ix) **Other changes.**
70. **The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:**
- (a) **The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;**
 - (b) **The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction or development; and**
 - (c) **The amount of contractual commitments for the acquisition, construction, or development of property, plant, and equipment.**
71. **If not presented separately in the statement of financial performance, the financial statements shall also disclose:**
- (a) **The amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and**
 - (b) **The amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 18 that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.**
72. Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:
- (a) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and
 - (b) Accumulated depreciation at the end of the period.

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73. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to:
- (a) Residual values;
 - (b) The estimated costs of dismantling, removing, or restoring items of property, plant, and equipment;
 - (c) Useful lives; and
 - (d) Depreciation methods.
74. **If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed:**
- (a) **The effective date of the revaluation;**
 - (b) **Whether an independent valuer was involved;**
 - (c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**
 - (d) **The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and**
 - (e) **The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.**
75. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 69(e)(iv)-69(e)(vi).
76. Users of financial statements may also find the following information relevant to their needs:
- (a) The carrying amount of temporarily idle property, plant, and equipment;
 - (b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use;
 - (c) The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with IPSAS 44.; and
 - (d) When the historical cost model is used, the current value (current operational value or fair value) of property, plant, and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment (see paragraphs AG37-AG38)

77. **Where heritage property, plant, and equipment or a class of heritage property, plant, and equipment is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:**
- (a) **The difficulties in obtaining a reliable measurement that prevented recognition; and**
 - (b) **The significance of the unrecognized heritage property, plant, and equipment in relation to delivery of the entity's objectives.**

78. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 69-76 and 79-84 will apply.

Current Value Measurement

79. **An entity shall disclose information that helps users of its financial statements assess both of the following:**
- (a) **For property, plant, and equipment that are measured at current operational value or fair value in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.**
 - (b) **For fair value measurements using significant unobservable inputs (Level 3), or current operational value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**
80. To meet the objectives in paragraph 79, an entity shall consider all the following:
- (a) The level of detail necessary to satisfy the disclosure requirements;
 - (b) How much emphasis to place on each of the various requirements;
 - (c) How much aggregation or disaggregation to undertake; and
 - (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this Standard are insufficient to meet the objectives in paragraph 79, an entity shall disclose additional information necessary to meet those objectives.

81. To meet the objectives in paragraph 79, an entity shall disclose, at a minimum, the following information for each class of property, plant, and equipment (see paragraph 82 for information on determining appropriate classes of property, plant, and equipment for current value measurement disclosures) measured at current operational value or fair value in the statement of financial position after initial recognition:
- (a) The current operational value or fair value measurement at the end of the reporting period;
 - (b) If there has been a change in measurement basis (e.g., changing from current operational value to fair value), the entity shall disclose that change and the reason(s) for making it;
 - (c) For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs. For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
 - (d) For current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a cost approach to a market approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using significant unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create

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quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity;

- (e) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, and sales (each of those types of changes disclosed separately);
 - (f) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value estimated using significant unobservable inputs, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those items of property, plant, and equipment held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
 - (g) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period); and
 - (h) For fair value measurements categorized within Level 3 of the fair value hierarchy or for current operational value measurements estimated using significant unobservable inputs a narrative description of the sensitivity of the current operational value or fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower current operational value or fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value or fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the current operational value or fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).
82. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of property, plant, and equipment (see paragraph 34) is required on the basis of (a) the measurement bases applied, and (b) the level of the fair value hierarchy within which the fair value measurement is categorized, or the extent to which the current operational value uses observable or unobservable inputs.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of property, plant, and equipment for which disclosures about current operational value or fair value measurements should be provided requires judgment. A class of property, plant, and equipment will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position.

83. For each class of property, plant, and equipment measured on the historical cost basis in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 81(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using significant unobservable inputs, required by paragraph 81(d). For such property, plant, and equipment, an entity does not need to provide the other current value measurement disclosures required by this Standard.
84. An entity shall present the quantitative current value measurement disclosures required by this Standard in a tabular format unless another format is more appropriate.

Effective Date and Transition

Effective Date

85. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted for entities that apply IPSAS 43, IPSAS 44, and IPSAS 46 at or before the date of initial application of the Standard. If an entity applies this Standard for a period beginning before January 1, 2025, it shall disclose that fact.**
86. When an entity adopts the accrual basis of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

87. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3 except that:**
- (a) **An entity may elect to measure heritage assets at their deemed cost when reliable cost information about these assets is not available at the date of application of this Standard.**
 - (b) **If, on initial application of this Standard, there is a difference between the previous carrying amount at fair value and the new carrying amount at fair value or current operational value, an entity shall recognize that difference as an adjustment to the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) without restatement of comparative information.**
88. **For entities that have previously applied IPSAS 17 (2006), *Property, Plant, and Equipment* the requirements of paragraphs 21-22 regarding the initial measurement of an item of property,**

plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

Withdrawal of IPSAS 17 (2006)

89. This Standard supersedes IPSAS 17 issued in 2006. IPSAS 17 remains applicable until IPSAS 45, *Property, Plant, and Equipment* is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of the IPSAS 45, Property, Plant, and Equipment.

Scope (see paragraphs 2-4)

AG1. This Standard applies to all property, plant, and equipment including:

- (a) Heritage;
- (b) Infrastructure;
- (c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and
- (d) Weapons systems.

Heritage Assets

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

AG3. Heritage assets typically have the following distinguishing characteristics:

- (a) They have restrictions on their use and/or disposal;
- (b) They are irreplaceable; and
- (c) They have long and sometimes indefinite useful lives.

Infrastructure Assets

AG4. Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these assets were removed, the network or system may not achieve its service potential objective.

AG5. Infrastructure assets typically have the following distinguishing characteristics:

- (a) They are networks or systems; and
- (b) They have long useful lives.

AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include:

- (a) Electricity transmission networks, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities;

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- (b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and
- (c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

Weapons Systems

AG7. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems.

Definitions (see paragraph 5)

Property, Plant, and Equipment as Assets

AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment are an asset as defined in IPSAS 1, *Presentation of Financial Statements*. This is because to be recognized as an asset, an item of property, plant, and equipment must meet all three criteria of an asset: a resource, presently controlled by the entity and arose from a past transaction or other past event.

AG9. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective when those services contribute to achieving the entity's service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where an entity's objectives are to provide heritage-related services such as the appreciation and study of heritage, the entity holds heritage items to achieve those objectives and the heritage items have service potential and are resources from the entity's perspective. Similarly, infrastructure assets that are used to deliver public services (e.g., road networks or water systems) will be resources to an entity that holds them if those services contribute to achieving the entity's service delivery and other objectives.

AG10. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:

- (a) Legal ownership;
- (b) Access to the resource, or the ability to deny or restrict others to access the resource;
- (c) The means to ensure that the resource is used to achieve its objectives; or
- (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

An entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG11. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances, an entity considers substance over form in determining whether it controls an asset.

Recognition (see paragraphs 6-10)

Spare Parts, Stand-By Equipment, and Servicing Equipment

AG12. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Standard when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory (see IPSAS 12, *Inventories*).

Subsequent Costs

AG13. Under the recognition principle in paragraph 6, an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of property, plant, and equipment.

AG14. Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building. Under the recognition principle in paragraph 6, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 62-68).

AG15. A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired, constructed, or developed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired, constructed, or developed.

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

AG16. An entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle in paragraph 6. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and

equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of paragraph 6 to determine whether or not it meets the recognition principle and should be recognized as an asset.

Initial Measurement (see paragraphs 11-23)

Elements of Cost

AG17. Examples of costs that are not costs of an item of property, plant, and equipment are:

- (a) Costs of opening a new facility;
- (b) Costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) Costs of conducting an operation in a new location or with a new class of purchasers (including costs of staff training);
- (d) Administration and other general overhead costs; and
- (e) Costs of day-to-day servicing or repairs and maintenance.

AG18. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, *Borrowing Costs*, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.

AG19. Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Subsequent Measurement (see paragraphs 24-61)

Current Value Model (Paragraphs 27-40)

AG20. After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured in a faithfully representative manner may be carried at a revalued amount, being its:

- (a) Current operational value; or
- (b) Fair value;

at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Financial and Operational Capacity

AG21. The primary objective for which an entity holds an item or part of an item of property, plant, and equipment is an important consideration when determining the current value measurement basis. An item or part of an item of property, plant, and equipment held for its:

- (a) Operational capacity supports the provision of services in future periods through physical and other resources. This requires information on the value of the item or part of an item of property, plant, and equipment as it is currently used by the entity. An item or part of an item of property, plant, and equipment held with the primary objective of service delivery is held for its operational capacity and is measured at current operational value; and
- (b) Financial capacity provides an entity with the means to fund its activities. This requires information on the amount that would be received on the sale of the asset or in the revenue it generates in use. An item or part of an item of property, plant, and equipment held with the primary objective of generating a financial return is held for its financial capacity and is measured at fair value.

AG22. In certain instances, an item or part of an item of property, plant, and equipment may generate a financial return although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. In this instance, the disposal waste plant would be measured at current operational value.

AG23. In some cases, it may not be clear whether the intended primary objective of holding an item or part of an item of property, plant, and equipment is for its operational or financial capacity. Judgment is needed. An entity develops criteria so that it can exercise judgment consistently in concluding whether an item or part of an item of property, plant, and equipment is held primarily for its operational or financial capacity. When the intended primary objective of holding an item or part of an item of property, plant, and equipment cannot be determined, given the overall objectives of most public sector entities, the presumption is that an item or part of an item of property, plant, and equipment is held for its operational capacity.

Depreciation (see paragraphs 41-58)

AG24. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, it may be required to depreciate separately the substructure and the surface of a road. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft. If an entity acquires property, plant, and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

Depreciable Amount and Depreciation Period (see paragraphs 47-51)

AG25. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.

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- AG26. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.
- AG27. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* and the date when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

Finite and Indefinite Useful Lives (see paragraphs 52-55)

- AG28. The useful lives of property, plant, and equipment, including buildings, are generally finite. However, there are circumstances in which property, plant, and equipment could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset could be considered to have an indefinite useful life, so long as those conditions continue to apply.
- AG29. Given the history of rapid changes in technology, it will often be the case that computers and other property, plant, and equipment susceptible to technological obsolescence have short useful lives. Expected future reductions in the selling price of an item that was produced using property, plant, and equipment could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.
- AG30. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water.
- AG31. An entity that controls land that is being consumed as a result of, for example, mining or quarrying activities will need to consider the period over which economic benefits or service potential are expected to be derived from, and the effect of, carrying out those activities on the value of the land to determine the appropriate depreciable period and amount.
- AG32. Where land is being lost or displaced as a result of, for example, coastline erosion, the entity will need to apply:
- (a) The derecognition requirements in paragraphs 62-68 of this Standard; or
 - (b) The impairment requirement in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets* depending on the circumstances.

Depending on the factors associated with the loss or displacement of land, an entity may need to consider the appropriateness of depreciating the land in future reporting periods, and should continue to assess for impairment in accordance with the requirements of this Standard.

Depreciation Method (see paragraphs 57-58)

- AG33. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
- AG34. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits or service potential of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

Depreciation – Useful Life of an Asset (see paragraphs 41-55)

- AG35. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, economic, political, social, and legal factors may also affect the useful life. Technical or commercial obsolescence and wear and tear while an asset remains idle may also result in the diminution of the economic benefits or service potential that might otherwise have been obtained from the asset. The useful life is the shorter of the periods identified through consideration of these factors. Consequently, the following factors are considered in determining the useful life of an asset:
- (a) Expected usage of the asset, which is assessed by reference to the asset's expected capacity or physical output;
 - (b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle;
 - (c) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;
 - (d) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset;
 - (e) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases;

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- (f) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
- (g) The stability of the industry in which the asset operates and changes in the market or government and service recipients' demand for the products or services output from the asset;
- (h) Expected actions by competitors or potential competitors; and
- (i) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

AG36. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment when Cost or Current Value Cannot be Measured Reliably (see paragraphs 77-78)

- AG37. The disclosures identified in paragraph 77 for unrecognized heritage property, plant, and equipment should ensure that, when read in the context of information about recognized property, plant, and equipment, the financial statements provide useful and relevant information about the entity's overall holding of property, plant, and equipment, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.
- AG38. These disclosures may be presented in aggregate for groups or classes of property, plant, and equipment, provided this aggregation does not obscure significant information.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 7, 92, 94, 101, 125C, 134, and 148 are amended. Paragraph 153O is added. New text is underlined, and deleted text is struck through.

Definitions

7. The following terms are used in this Standard with the meanings specified:

...

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests. Types of reserves include:

- (a) Changes in revaluation surplus (see ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*);
- (b) Remeasurements of defined benefit plans (see IPSAS 39, *Employee Benefits*);
- (c) Gains and losses arising from translating the financial statements of a foreign operation (see IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*);
- (d) Gains and losses from investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41, *Financial Instruments*;
- (e) Gains and losses on financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41;
- (f) The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 (see paragraphs 113-155 of IPSAS 41);
- (g) For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 108 of IPSAS 41);
- (h) Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see paragraphs 113-155 of IPSAS 41); and
- (i) Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see paragraphs 113-155 of IPSAS 41).

Information to be Presented on the Face of the Statement of Financial Position

...

92. The use of different measurement ~~bases~~ models for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*.

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 IPSASs 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:
- (a) Items of property, plant, and equipment are disaggregated into classes in accordance with ~~IPSAS 17~~ IPSAS 45;
 - (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments, and other amounts;
 - (c) Inventories are subclassified in accordance with IPSAS 12, *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress, and finished goods;
 - (d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
 - (da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;
 - (e) Provisions are disaggregated into provisions for employee benefits and other items; and
 - (f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

Surplus or Deficit for the Period

...

101. Other IPSASs deal with items that may meet definitions of revenue or expense set out in this Standard but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see ~~IPSAS 17~~ IPSAS 45), particular (a) gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4), and (b) gains or losses on remeasuring financial assets measured at fair value through net assets/equity (guidance on measurement of financial assets can be found in IPSAS 41).

Statement of Changes in Net Assets/Equity

...

- 125C. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31 or on remeasurements of defined benefit plans recognized in accordance with IPSAS 39. These components are recognized in net assets/equity and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognized (see ~~IPSAS 17~~ IPSAS 45 or IPSAS 31). In accordance with IPSAS 41,

reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of net assets/equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Disclosure of Accounting Policies

...

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the fair value or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSASs specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, ~~IPSAS 17~~ IPSAS 45 requires disclosure of the measurement bases used for classes of property, plant, and equipment. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

Key Sources of Estimation Uncertainty

...

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other IPSASs. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 30 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. ~~IPSAS 17~~ IPSAS 45 requires disclosure of ~~significant assumptions~~ measurement techniques and inputs applied in ~~estimating~~ measuring current operational values and fair values of revalued items of property, plant, and equipment.

Effective date

...

- 153O. **Paragraphs 7, 92, 94, 101, 125C, 134, and 148 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended. Paragraph 63J is added. New text is underlined, and deleted text is struck through.

Operating Activities

...

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:
- (a) Cash receipts from taxes, levies, and fines;
 - (b) Cash receipts from charges for goods and services provided by the entity;
 - (c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;
 - (d) Cash receipts from royalties, fees, commissions, and other revenue;
 - (da) Cash payments to beneficiaries of social benefit schemes;
 - (e) Cash payments to other public sector entities to finance their operations (not including loans);
 - (f) Cash payments to suppliers for goods and services;
 - (g) Cash payments to and on behalf of employees;
 - (h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;
 - (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
 - (j) Cash receipts and payments from contracts held for dealing or trading purposes;
 - (k) Cash receipts or payments from discontinuing operations; and
 - (l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 6668 of ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Effective Date

...

- 63J. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 22, IG14, IG15, IG16 and IG17 are amended. Paragraph 59E is added. New text is underlined, and deleted text is struck through.

...

Changes in Accounting Policies

...

22. **The initial application of a policy to revalue assets in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*, or IPSAS 31, *Intangible Assets*, is a change in accounting policy to be dealt with as a revaluation in accordance with ~~IPSAS 17~~ IPSAS 45 or IPSAS 31, rather than in accordance with this Standard.**

Effective Date

...

- 59E. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

...

Implementation Guidance

...

Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

...

- IG14. During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the ~~revaluation~~ current value model.
- IG15. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their ~~fair~~ current operational values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.
- IG16. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller component approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a historical cost model to a ~~revaluation~~ current value model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

PROPERTY, PLANT, AND EQUIPMENT

IG17. Additional information

	CU
Property, Plant, and Equipment	
Cost	25,000
Depreciation	<u>(14,000)</u>
Net book value <u>Carrying amount</u>	<u>11,000</u>
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey	
Valuation	17,000
Estimated residual value	3,000
Average remaining assets life (years)	7
Depreciation expense on existing property, plant, and equipment for 20X2 (new basis)	2,000

...

Extracts from Notes to the Financial Statements

- From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the ~~revaluation-current value~~ revaluation-current value model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly, the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 28, 36 and IE4 are amended. Paragraph 71G is added. New text is underlined, and deleted text is struck through.

...

Reporting at Subsequent Reporting Dates

...

- The carrying amount of an item is determined in conjunction with other relevant IPSASs. For example, property, plant, and equipment may be measured in terms of ~~fair value~~ fair value or historical cost

or current operational value or fair value in accordance with ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of current operational value or fair value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

Recognition of Exchange Differences

...

36. Other IPSASs require some gains and losses to be recognized directly in net assets/equity. For example, ~~IPSAS 17~~ IPSAS 45 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

Effective Date

...

- 71G. **Paragraphs 28 and 36 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Illustrative Examples

Foreign Currency Transactions and Advance Consideration

Example 1—A Single Advance Payment for the Purchase of a Single Item of Property, Plant, and Equipment

...

- IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant, and equipment applying ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1 20X1 (the date of initial recognition of the non-monetary asset).

...

Amendments to IPSAS 9, *Revenue from Exchange Transactions*

Paragraph 10(c) is amended. Paragraph 41E is added. New text is underlined, and deleted text is struck through.

Scope

...

10. This Standard does not deal with revenue arising from:

(c) Gains from the sale of property, plant, and equipment (which are dealt with in ~~IPSAS 17~~IPSAS 45, Property, Plant, and Equipment);

Effective Date

...

41E. **Paragraph 10(c) was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 12, *Inventories*

Paragraphs 12(d) and 14A are amended. Paragraph 51G is added. New text is underlined, and deleted text is struck through.

...

Inventories

...

12. Inventories in the public sector may include:

...

(d) Spare parts for plant and equipment, other than those dealt with in ~~standards on~~ IPSAS 45, *Property, Plant, and Equipment*;

...

14A. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems. However, some types of missiles may be accounted for in accordance with ~~IPSAS 17~~IPSAS 45, ~~*Property, Plant, and Equipment*~~, if they satisfy the criteria to be classified in that standard.

Effective Date

...

51G. **Paragraph 12(d) and 14A were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 86, 89, and 90 are amended. Headings ahead of paragraphs 65, 85, 90 are amended. Paragraph 101J is added. New text is underlined, and deleted text is struck through.

...

Scope

...

6. This Standard does not apply to:
- (a) Biological assets related to agricultural activity (see IPSAS 27, *Agriculture* and ~~IPSAS 47~~IPSAS 45, *Property, Plant, and Equipment*); and
 - (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

Classification of Property as Investment Property or Owner-Occupied Property

...

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* applies to owned owner-occupied property and IPSAS 43, *Leases* applies to owner-occupied property held by a lessee as a right-of-use asset.

...

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.
 - (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 IPSAS 11, *Construction Contracts*).
 - (c) Owner-occupied property (see ~~IPSAS 17~~IPSAS 45 and IPSAS 43), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
 - (d) [Deleted]
 - (e) Property that is leased to another entity under a finance lease.

- (f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with ~~IPSAS 47~~IPSAS 45.
- (g) Property held for strategic purposes which would be accounted for in accordance with ~~IPSAS 47~~IPSAS 45.

...

- 19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, the property would be accounted for as property, plant, and equipment in accordance with ~~IPSAS 47~~IPSAS 45.

Measurement at Recognition

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- 33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial recognition, to adopt either the fair value model (paragraphs 42-64) or the historical cost model (paragraph 65).

...

Measurement after Recognition

Accounting Policy

- 39. **With the exception noted in paragraph 41A, an entity shall choose as its accounting policy either the fair value model in paragraphs 42-64 or the historical cost model in paragraph 65, and shall apply that policy to all of its investment property.**
- 40. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the historical cost model will result in a more relevant presentation.
- 41. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to determine the fair value of investment

property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

....

Inability to Determine Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the historical cost model in ~~IPSAS 47~~IPSAS 45 for owned investment property or in accordance with IPSAS 43 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply ~~IPSAS 47~~IPSAS 45 or IPSAS 43 until disposal of the investment property.**
- 62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the historical cost model in accordance with ~~IPSAS 47~~IPSAS 45 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.
- ...
63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the historical cost model in accordance with ~~IPSAS 47~~IPSAS 45 or IPSAS 43, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the historical cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**
- (a) **In accordance with IPSAS 43 if it is held by the lessee as a right-of-use asset; and**
 - (b) **In accordance with the requirements in ~~IPSAS 47~~IPSAS 45 for the historical cost model if it is held by an owner as an owned investment property.**

Transfers

...

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the historical cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.
71. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with ~~IPSAS 17~~IPSAS 45, IPSAS 43 or IPSAS 12, shall be its fair value at the date of change in use.**
72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply ~~IPSAS 17~~IPSAS 45 for owned property and IPSAS 43 for property held by a lessee as a right-of-use asset up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 17~~IPSAS 45.**
73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or right-of-use asset) and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with ~~IPSAS 17~~IPSAS 45. In other words:

...

Disposals

...

79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the historical cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

Disclosure**Fair Value Model and Historical Cost Model**

....

86. **An entity shall disclose:**

- (a) **Whether it applies the fair value or the historical cost model;**
- (b) [Deleted]
- (c) **When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;**
- (d) **The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;**
- (e) **The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;**
- (f) **The amounts recognized in surplus or deficit for:**
 - (i) **Rental revenue from investment property;**
 - (ii) **Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and**
 - (iii) **Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.**
- (g) **The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and**
- (h) **Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.**

...

Fair Value Model

...

- 89. In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in ~~IPSAS 17~~ IPSAS 45 or in accordance with IPSAS 43, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:**

...

Historical Cost Model

- 90. In addition to the disclosures required by paragraph 86, an entity that applies the historical cost model in paragraph 65 shall disclose:**
- (a) **The depreciation methods used;**
 - (b) **The useful lives or the depreciation rates used;**

PROPERTY, PLANT, AND EQUIPMENT

- (c) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;**
- (d) **The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:**
 - (i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;**
 - (ii) **Additions resulting from acquisitions through public sector combinations;**
 - (iii) **Disposals;**
 - (iv) **Depreciation;**
 - (v) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;**
 - (vi) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**
 - (vii) **Transfers to and from inventories and owner-occupied property; and**
 - (viii) **Other changes; and**
- (e) **The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:**
 - (i) **A description of the investment property;**
 - (ii) **An explanation of why fair value cannot be determined reliably; and**
 - (iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

...

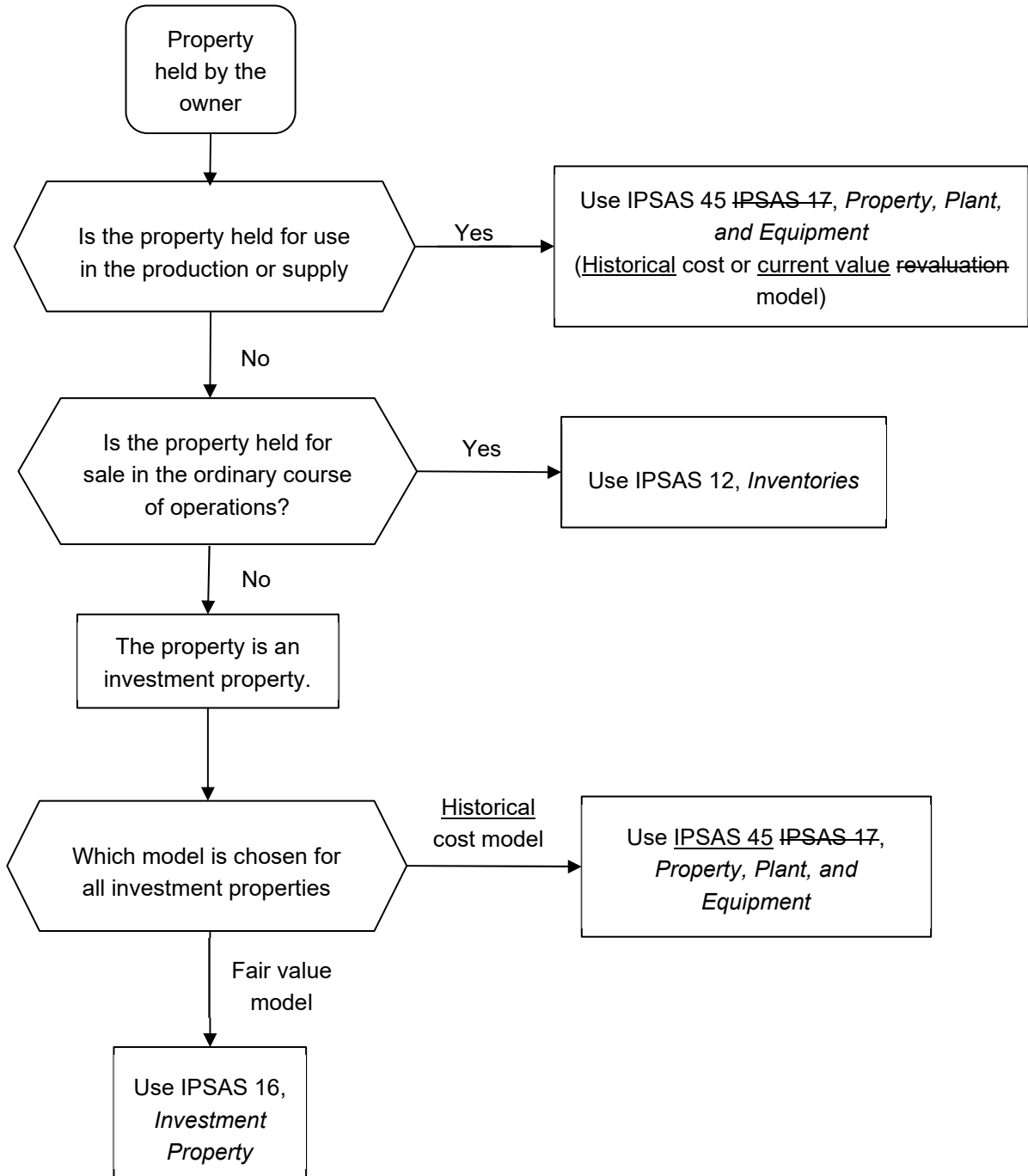
Effective Date

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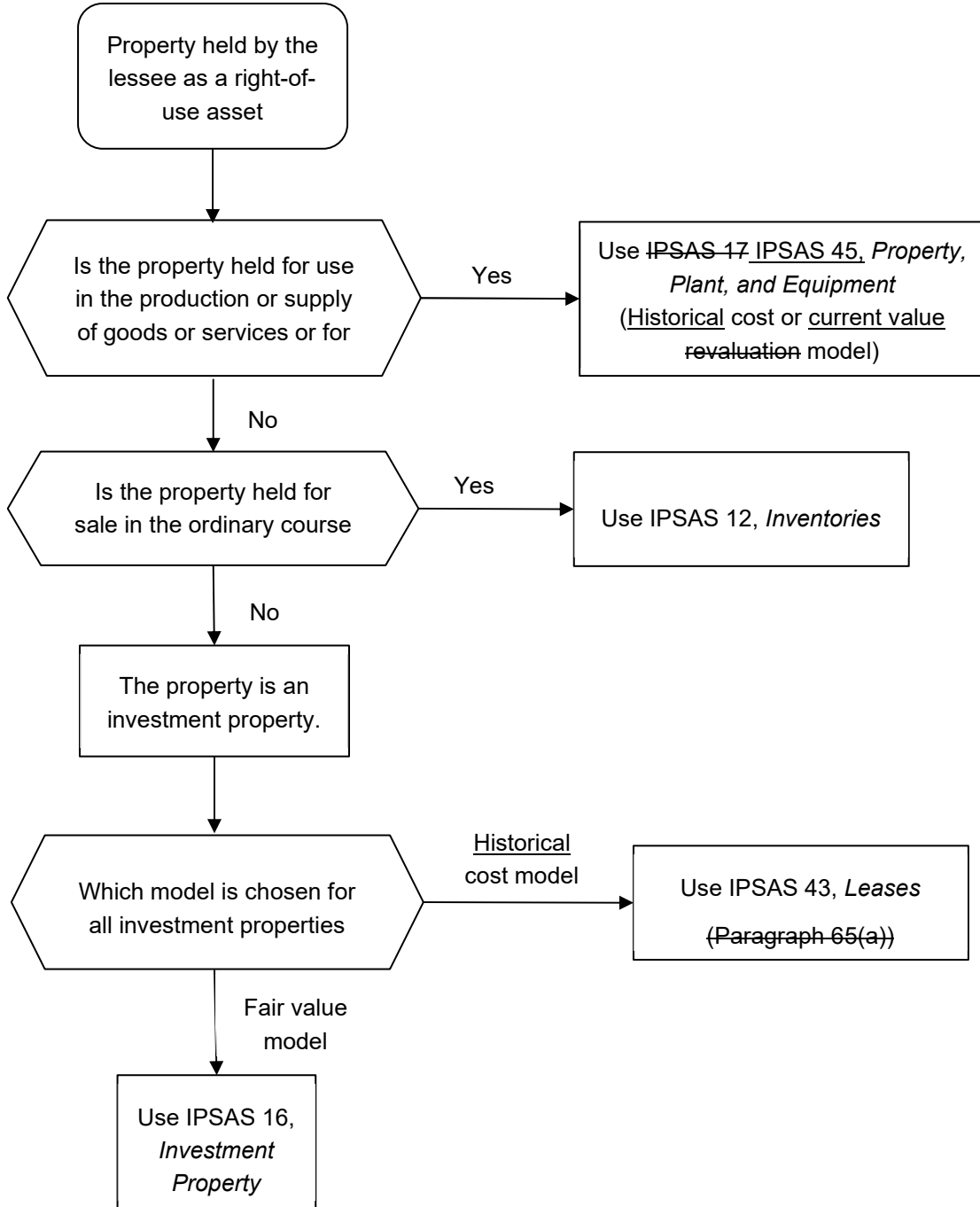
101J. Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 86, 89, and 90 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 16.



PROPERTY, PLANT, AND EQUIPMENT



Comparison with IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), *Investment Property* and includes amendments made to IAS 40 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 4, *Insurance Contracts*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of those IFRSs. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows. Such property is accounted for in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*.
- ~~IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. IAS 40 only contains transitional provisions for entities that have already used IFRSs. IFRS 1 deals with first time adoption of IFRSs. IPSAS 16 includes additional transitional provisions that specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits.~~
- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant example is the use of the term “statement of financial performance” in IPSAS 16. The equivalent term in IAS 40 is “income statement.”
- IPSAS 16 does not use the term “income” which in IAS 40 has a broader meaning than the term “revenue.”

Amendments to IPSAS 18, *Segment Reporting*

Paragraph 37 is amended. Paragraph 76G is added. New text is underlined, and deleted text is struck through.

...

Segment Assets, Liabilities, Revenue, and Expense

...

37. IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an operation acquired in an acquisition. Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an operation acquired in an acquisition, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the revaluation~~current value~~ model in ~~IPSAS 47~~IPSAS 45, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

Effective Date

...

76G. Paragraph 37 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 27 and IG16 are amended. Paragraph 111N is added. New text is underlined, and deleted text is struck through.

...

Past Event

...

27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused. ~~IPSAS 47~~IPSAS 45, *Property, Plant, and Equipment*, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure

to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles, or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognized.

Effective Date

...

111N. Paragraph 27 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply ~~IPSAS 17~~IPSAS 45 at the same time.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

...

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. ~~IPSAS 17~~IPSAS 45, Property, Plant, and Equipment 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.

...

Amendments to IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraphs 12, 54, 54A, 69, 69A, 75, BC17, BC19, BC20A, BC20B, BC20C, BC20F, BC20H, BC20J, BC25, and BC27 are amended. Paragraph 82L is added. New text is underlined, and deleted text is struck through.

...

Scope

...

12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the ~~allowed alternative treatment current value model~~ in ~~IPSAS 17~~IPSAS 45, Property, Plant, and Equipment are dealt with under IPSAS 26.

Recognizing and Measuring an Impairment Loss

...

54. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**
- 54A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45.

Reversing an Impairment Loss

...

69. **A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**
- 69A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or ~~IPSAS 17~~IPSAS 45.

Disclosure

...

75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by ~~IPSAS 17~~IPSAS 45.

Effective Date

...

- 82L. Paragraphs 12, 54, 54A, 69, 69A, and 75 were amended by IPSAS 45 *Property, Plant, and Equipment*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

...

Basis for Conclusions

...

Property, Plant, and Equipment and Intangible Assets

BC17. ~~At the time this Standard was approved~~ When this Standard was issued in December 2004, it did not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the revaluation model in IPSAS 17 and IPSAS 31. The IPSASB was then of the view that under the revaluation model in IPSAS 17 and IPSAS 31, assets would be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date, and any impairment would be taken into account in the valuation. Therefore, any difference between the asset's carrying amount and its fair value less costs to sell would be the disposal costs. The IPSASB was then of the view that, in most cases, these would not be material and, from a practical viewpoint, it was not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

...

BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches may also be adopted to measure fair value under ~~IPSAS 17~~ IPSAS 45 and IPSAS 31 and therefore the value in use is a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs to sell and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.

...

Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

BC20A As a consequence of requests from jurisdictions that apply IPSASs, in 2015 the IPSASB revisited the original decision to exclude revalued property, plant, and equipment and intangible assets from the scope of IPSAS 21.

BC20B. ~~The~~ When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC19 and BC20 for the different requirements in IPSAS 21 and IAS 36 remained sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and fair value as required by paragraph 74 of IPSAS 31. In developing IPSAS 45, the IPSASB concluded that the same impairment principles

should apply when revaluing assets to current operational value, as required by paragraph 27 of IPSAS 45.

BC20C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar manner. Paragraph 51 of IPSAS 17 had ~~required~~ an entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

...

BC20F. Although including property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 means that the entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 will not be overly onerous for the preparers of financial statements.

...

Responses to ED 57

BC20H. The majority of the respondents to ED 57 had supported the proposals and the IPSASB's rationale. When this Standard was issued, the ~~The~~ IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17. In developing IPSAS 45, the IPSASB concluded that the same statement should be retained.

...

BC20J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they ~~are~~ were conceptually the same. However, there ~~is~~ was a practical difference. Impairments were ~~are~~ events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference ~~is~~ was reflected in the statement in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

...

Reversal of Impairment

BC25. Paragraph 27(c) includes "Evidence is available of physical damage of an asset" as a minimum indication of impairment. Paragraph 60 does not include an indication of reversal of impairment that mirrors this indication of impairment. When this Standard was issued, the ~~the~~ IPSASB ~~had~~ not included repair of an asset as an indication of reversal, because IPSAS 17 ~~required~~ entities to add

subsequent expenditure to the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained. This requirement also applied to investment property that was measured using the cost model under IPSAS 16. The IPSASB is of the view that these requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment. The IPSASB also noted that restoration or repair of damage does not constitute a change in the estimate of the asset's recoverable service amount after impairment as specified by paragraph 65 of this IPSAS. In developing IPSAS 45, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the cost model in IPSAS 17 is labeled the historical cost model in IPSAS 45 and that label consequentially applies in IPSAS 16.

...

Revision of IPSAS 21 as a result of Improvements to IPSAS, 2019

BC27. ~~The~~When this Standard was issued the reference to “class of assets” in paragraphs 54A and 69A had created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17, *Property, Plant, and Equipment*. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31 and class of assets in the scope of IPSAS 17. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

Comparison with IAS 36

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.
- IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the ~~allowable alternative treatment~~ current value model in ~~IPSAS 17~~ IPSAS 45. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRSs. These have not been excluded from IPSAS 21 because there are not equivalent IPSASs. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*, and (e) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.
- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.
- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue," "recoverable service amount", and "statement of financial performance," in IPSAS 21. The equivalent terms in IAS 36 are "income," "recoverable amount," and "income statement."

Amendments to IPSAS 23, Revenue From Non-Exchange Transactions (Taxes and Transfers)

Paragraphs 13, 42, 43, 83, 97, IG23 and IG58 are amended. Paragraph 43A and 124H are added. New text is underlined, and deleted text is struck through.

Definitions*Revenue*

...

13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with ~~IPSAS 17~~ IPSAS 45, Property, Plant, and Equipment.

Recognition of Assets*Measurement of Assets on Initial Recognition*

...

42. An asset acquired through a non-exchange transaction shall initially be measured at its fair current value as at the date of acquisition.
43. Consistent with IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, ~~IPSAS 17 *Property, Plant, and Equipment*~~ IPSAS 31, *Intangible Assets* and IPSAS 41, *Financial Instruments*, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition.
- 43A. Consistent with IPSAS 45 assets acquired through non-exchange transactions are measured at their deemed cost as at the date of acquisition. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

Transfers*Measurement of Transferred Assets*

...

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, and equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and ~~IPSAS 17~~ IPSAS 45. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

Gifts and Donations, including Goods In-kind

...

97. On initial recognition, gifts and donations, including goods in-kind, such as:

- (a) Inventories, investment property, intangible assets, and financial instruments are measured at their fair value at the date of acquisition; and
- (b) Property, plant, and equipment assets are measured at their deemed cost at the date of acquisition;

~~As at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment. The primary objective for which an entity holds property, plant, and equipment, in accordance with IPSAS 45, determines the current value measurement basis used to determine deemed cost. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.~~

...

Effective Date

...

124H. **Paragraphs 13, 42, 43, 83, and 97 were amended, and paragraph 43A was added by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

Implementation Guidance

Transfer to a Public Sector University with Restrictions (paragraphs 19 and 76)

...

IG23. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its ~~fair~~ current value in accordance with ~~IPSAS 17~~ IPSAS 45. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

...

Interaction Between Measurement Requirements of IPSAS 23 and IPSAS 41

....

Analysis

...

IG58. IPSAS 23 prescribes that assets acquired as part of a non-exchange revenue transaction are initially measured at ~~fair value~~ deemed cost, while IPSAS 41 prescribes that financial assets are initially measured at fair value and, depending on their classification, transaction costs may or may not be included. As the entity has a policy of measuring investments in shares at fair value through net assets/equity, the transaction costs of CU10,000 are added to the value of the shares of CU1,000,000 on initial measurement.

Amendments to IPSAS 26, Impairment of Cash-Generating Assets

Paragraphs 73, 73A, 108, 108A, 118, BC3, BC4, BC5, BC7, BC7A, BC7B, BC7C, BC7F, BC7H, BC7I, BC7J and BC21 are amended. Paragraph 126N is added. New text is underlined, and deleted text is struck through.

...

Recognizing and Measuring an Impairment Loss

...

73. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, Property, Plant, and Equipment and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45.

...

Reversing an Impairment Loss for an Individual Asset or Class of Asset

...

108. **A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the ~~revaluation~~current value model in IPSAS 45 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with ~~IPSAS 17~~IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or ~~IPSAS 17~~IPSAS 45.

...

Disclosure

...

118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment at the beginning and end of the period, as required by ~~IPSAS 17~~IPSAS 45.

Effective Date

...

- 126N. Paragraphs 73, 73A, 108, 108A, and 118 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

Basis for Conclusions**Development of IPSAS 26 Based on the IASB's Revised Version of IAS 36 Issued in 2004**

...

Need for this Standard

- BC3. When this Standard was issued, IPSAS 21 had referred readers to IAS 36 (a) in order to establish whether cash-generating assets have been impaired, and (b) for accounting for the recognition and measurement of any impairment. There ~~are~~ were benefits in incorporating requirements and guidance on the impairment of cash-generating assets in an IPSAS, so that public sector entities do not have to refer to IAS 36 when an entity has cash-generating assets. In addition, there ~~are~~ were a number of public sector issues related to impairment. These included:

- (a) Whether cash-generating property, plant, and equipment carried in accordance with the revaluation model in IPSAS 17, *Property, Plant, and Equipment* should be within the scope;
- (b) Distinguishing cash-generating and non-cash-generating assets;
- (c) The redesignation of cash-generating assets to non-cash-generating assets and vice-versa; and
- (d) The treatment for impairment purposes of non-cash-generating assets in cash-generating units.

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that the identified relationship still applies for issue (a) above.

Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope

- BC4. ~~At the time this Standard was approved~~ When this Standard was issued, in February 2008, the scope of IPSAS 21 had excluded non cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 had stated that the IPSASB was of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17-would be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date,

and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore had considered whether a similar scope exclusion should be included in this Standard.

BC5. The IPSASB had acknowledged that property, plant, and equipment held on the revaluation model ~~are~~ were within the scope of IAS 36, and had considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB had noted that in IAS 36, in cases where the fair value of an item of property, plant, and equipment is its market value, the maximum amount of an impairment loss ~~is~~ was the disposal costs. In the Basis for Conclusions for IPSAS 21, it ~~is~~ was stated that “the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset’s recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.” The IPSASB had considered that disposal costs are also unlikely to be material for cash-generating assets. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

...

BC7. ~~The~~ When this Standard was issued, the IPSASB had been ~~was~~ of the view that it would be onerous to impose a requirement to test for impairment in addition to the then existing requirement in IPSAS 17, i.e., that assets ~~will~~ would be revalued with sufficient regularity to ensure that they ~~are~~ were carried at an amount that ~~is~~ would not ~~be~~ materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB had concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant, and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that ~~are~~ were regularly revalued to fair value ~~were~~ would also ~~be~~ excluded from the scope. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that current operational value can be applied instead of fair value and the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

...

Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

BC7A. As a consequence of requests from jurisdictions that apply IPSASs, in 2015 the IPSASB revisited the original decision to exclude property, plant, and equipment and intangible assets from the scope of IPSAS 26.

BC7B. ~~The~~ When this Standard was issued the IPSASB had considered that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 ~~is~~ was sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as was required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31.

BC7C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they ~~are~~ were accounted for in a similar manner. Paragraph 51 of IPSAS 17 ~~required~~ the entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class ~~is~~ was revalued. Therefore, if impairment losses and reversals of impairment losses ~~are~~ were interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that this reasoning and consideration are still applicable.

...

BC7F. Although property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 will not be overly onerous for the preparers of financial statements.

Responses to ED 57

BC7H. The majority of respondents to ED 57 supported the proposals and the IPSASB's rationale. The IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17.

BC7I. The IPSASB had acknowledged this view but had considered it inappropriate for two reasons. Firstly, such an approach did not sufficiently address the different methods of determining value in use for non-cash-generating assets when evaluating an asset's recoverable service amount. Such methods are the depreciated replacement cost approach, the restoration cost approach and the service-units approach. Secondly, the approach does not provide the information needed for accountability and decision-making purposes by users that is provided by the disclosures in IPSAS 21 and IPSAS 26. The IPSASB had therefore decided to effect the proposals in ED 57 in a final pronouncement.

BC7J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they are conceptually the same. However, there is was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference is was reflected in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable.

...

Revision of IPSAS 26 as a result of Improvements to IPSAS, 2019

BC21. The When this Standard was issued the IPSASB had noted that the reference to "class of assets" in paragraphs 73A and 108A created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31, *Intangible Assets* and class of assets in the scope of IPSAS 17. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable.

Comparison with IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- IPSAS 26 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the ~~revaluation~~ current value model in ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.
- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs to sell. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the re designation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.
- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue" and "statement of financial performance." The equivalent terms in IAS 36 are "income" and "income statement."

Amendments to IPSAS 27, Agriculture

Paragraphs 3, 4, 6, 37, and BC9 are amended. Paragraph 56I is added. New text is underlined, and deleted text is struck through.

...

Scope

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3. This Standard does not apply to:
- (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and ~~IPSAS 47~~IPSAS 45, *Property, Plant, and Equipment*);

...

4. Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other IPSASs should be considered in determining the appropriate accounting (e.g., IPSAS 12, *Inventories* and ~~IPSAS 47~~IPSAS 45).

...

6. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation forest	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine

PROPERTY, PLANT, AND EQUIPMENT

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Fruit trees	Picked fruit	Processed fruit
Oil Palms	Picked fruit	Palm Oil
Rubber trees	Harvested latex	Rubber products
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IPSAS 47 IPSAS 45 . However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IPSAS 27.		

...

Inability to Measure Fair Value Reliably

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37. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IPSAS 12, ~~IPSAS 17~~IPSAS 45, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

Effective Date

...

- 56l. **Paragraphs 3, 4, 6, and 37 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

...

Basis for Conclusions

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Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

...

- BC9. When this Standard was issued, in analyzing approach 3, the IPSASB had considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. IPSAS 23.13 states that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs were are included in the amount recognized as an asset, in accordance with IPSAS 17." In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable. This implies

that for other assets, an entity considers the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 3, 7, 15, 67, AG5, BC9, and IE22 are amended. Paragraphs 3(k) and 11 are deleted. Paragraphs 132M, AG12, AG13, AG14 and BC14-BC15 are added. New text is underlined, and deleted text is struck through.

...

Scope

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3 This Standard shall be applied in accounting for intangible assets, except:

- (a) **Intangible assets that are within the scope of another Standard;**
- (b) **Financial assets, as defined in IPSAS 28, *Financial Instruments: Presentation*;**
- (c) **The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources);**
- (d) **Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;**
- (e) [Deleted]
- (f) [Deleted]
- (g) **Powers and rights conferred by legislation, a constitution, or by equivalent means;**
- (h) **Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);**
- (i) **Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts. In cases where the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets; and**
- (j) [Deleted]
- (k) ~~[Deleted] In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognized.~~

...

7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*, or as an intangible asset under this Standard, an entity uses judgment to assess which element is more significant. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as property, plant, and

equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

...

Intangible Heritage Assets

...

11. ~~[Deleted] This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.~~

...

15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognized intangible assets. Therefore, entities ~~that recognize intangible heritage assets~~ are required to disclose in respect of ~~these~~ recognized intangible heritage assets such matters as, for example:

- (a) The measurement basis used;
- (b) The amortization method used, if any;
- (c) The gross carrying amount;
- (d) The accumulated amortization at the end of the period, if any; and
- (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

...

Recognition of an Expense

...

67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 52), except when it is acquired as part of an acquisition. Other examples of expenditure that is recognized as an expense when it is incurred include:

- (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with ~~IPSAS 17~~IPSAS 45. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);
- (b) Expenditure on training activities;
- (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and

- (d) Expenditure on relocating or reorganizing part or all of an entity.

...

Effective Date

...

132M. Paragraphs 3, 7, 15, 67, and AG5 were amended, paragraphs 3(k) and 11 were deleted, and paragraphs AG12, AG13, and AG14 were added by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

...

Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

...

AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers, and Internet connections) of a website. Such expenditure is accounted for under ~~IPSAS 17~~IPSAS 45 Property, Plant, and Equipment. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's website, the expenditure is recognized as an expense when the services are received.

...

Intangible Heritage Assets: Cost or Fair Value Cannot be Measured Reliably

AG12. Where intangible heritage assets are not recognized in the financial statements because, at initial measurement, their cost or fair value cannot be measured reliably, the entity shall disclose:

- (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
- (b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

AG13. The disclosures should ensure that, when read in the context of information about recognized intangible assets, the financial statements provide useful and relevant information about the entity's overall holding of intangible assets, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG14. These disclosures may be presented in aggregate for groups or classes of intangible assets, provided this aggregation does not obscure significant information.

...

Basis for Conclusions

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Revaluation Model

BC9. The revaluation model proposed in IPSAS 31 is similar to that in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. When this Standard was issued, IPSAS 17, *Property, Plant, and Equipment* required revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB had considered this approach for intangible assets, but had concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB had concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this conclusion is still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

...

Revision of IPSAS 31 as a result of ED 78, *Property, Plant, and Equipment*

BC14. During development of IPSAS 45, *Property, Plant, and Equipment*, the IPSASB concluded that the heritage nature of an asset does not prevent its recognition. On the basis that the same conceptual arguments apply to intangible heritage as those that apply to heritage property, plant, and equipment the IPSASB decided to remove the heritage scope exclusion in IPSAS 31. This ensures that IPSAS 31's treatment of intangible heritage assets is consistent with the accounting treatment for heritage property, plant, and equipment. Recognition of intangible heritage assets that meet IPSAS 31's recognition criteria will provide information that users of the financial statements find useful for accountability and decision-making.

BC15. The IPSASB considered whether the disclosure requirements in ED 78 for unrecognized heritage property, plant, and equipment should also apply to unrecognized intangible heritage assets. On the basis that disclosure requirements in ED 78 will provide useful information for accountability and decision-making on intangible heritage assets that are not recognized because their cost or fair value cannot be measured reliably, the IPSASB concluded that the same disclosure requirements should apply to intangible heritage assets. The IPSASB decided, therefore, to add application guidance that sets out disclosure requirements with respect to unrecognized intangible heritage assets.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 31.

...

Examples Illustrating the Application Guidance

IE22. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2-AG3 and to illustrate application of paragraphs AG4-AG11 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

PROPERTY, PLANT, AND EQUIPMENT

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
Planning	
...	...
Application and Infrastructure Development	
...	Apply the requirements of IPSAS 17 IPSAS 45, <i>Property, Plant, and Equipment</i>
Graphical Design Development	
...	...

...

Comparison with IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

- IPSAS 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.
- IPSAS 31 incorporates the guidance contained in the Standing Interpretation Committee's Interpretation 32, *Intangible Assets—Web Site Costs* as Application Guidance to illustrate the relevant accounting principles.
- ~~IPSAS 31 does not require or prohibit the recognition of~~ includes paragraphs that describe intangible heritage assets, and states that An an entity ~~that recognizes intangible heritage assets~~ is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognized ~~and may, but is not required to, comply with other requirements of this Standard in respect of those intangible heritage assets.~~ It has application guidance that requires disclosure on intangible heritage assets that have not been recognized. IAS 38 does not have similar guidance.
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions. IPSAS 31 states that where an intangible asset is acquired through a non-exchange transaction, the cost is its fair value as at the date it is acquired.
- IAS 38 provides guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 31 does not include this guidance.
- The examples included in IAS 38 have been modified to better address public sector circumstances.
- IPSAS 31 uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” “surplus or deficit,” “future economic benefits or service potential,” “accumulated surpluses or deficits,” “operating/operation,” “rights from binding arrangements (including rights from contracts or other legal rights),” and “net assets/equity” in IPSAS 31. The equivalent terms in IAS 38 are “income,” “statement of comprehensive income,” “profit or loss,” “future economic benefits,” “retained earnings,” “business,” “contractual or other legal rights,” and “equity.”

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35, AG48, BC49, BC50, IG2, IG4, IE6, IE8, IE15, IE17, IE22, IE30, and IE39 are amended. Paragraph 36F is added. New text is underlined, and deleted text is struck through.

...

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5-AG35)

...

12. **Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted**

for in accordance with ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*, as appropriate.

13. After initial recognition or reclassification, service concession assets shall be accounted for in accordance with ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.

...

Presentation and Disclosure (see paragraphs AG65-AG67)

...

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure is in addition to the disclosures required in ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31 or may be included in more than one class of assets disclosed in accordance with ~~IPSAS 17~~IPSAS 45 and/or IPSAS 31. For example, for the purposes of ~~IPSAS 17~~IPSAS 45 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

...

Effective Date

...

- 36F. **Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35, and AG48 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

...

Application Guidance

This Appendix is an integral part of IPSAS 32.

...

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9-13)

Recognition of a Service Concession Asset

...

- AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer or surface of a road or the roof of a building), the asset is considered as a whole. Thus, the condition in paragraph 9(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

...

Existing Asset of the Grantor

...

AG16. In applying the impairment tests in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 43.

...

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognizes and measures the asset in accordance with this Standard. ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, set out the criteria for when a service concession asset should be recognized. Both ~~IPSAS 17~~IPSAS 45 and IPSAS 31 require that an asset shall be recognized if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- (b) The ~~cost or fair value of the~~ item can be measured reliably.

...

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate, the grantor must have reliable information about the historical cost or current operational value or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in ~~IPSAS 17~~IPSAS 45 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of ~~fair value~~ current value measurement basis on initial recognition does not constitute a revaluation under ~~IPSAS 17~~ IPSAS 45 or IPSAS 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

- (h) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.
- (i) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in ~~IPSAS 17~~ IPSAS 45 and IPSAS 31.

...

Separable Payments

...

AG30. ~~IPSAS 17~~ IPSAS 45 and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

...

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph ~~38~~ 21 of ~~IPSAS 17~~ IPSAS 45 and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.

...

Subsequent Measurement

AG35. After initial recognition, a grantor applies ~~IPSAS 17~~ IPSAS 45 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21 and IPSAS 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

...

Recognition and Measurement of Liabilities (see paragraphs 14-28)

...

Grant of a Right to the Operator Model (see paragraphs 24-26)

...

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognized and the liability recognized in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in ~~IPSAS 17~~IPSAS 45 or IPSAS 31, as appropriate.

...

Basis for Conclusions

...

Revision of IPSAS 32 as a result of Part II of *Improvements to IPSASs 2015*: issues raised by stakeholders

BC49. ~~The~~When this Standard was issued the IPSASB had its attention drawn to a possible inconsistency between the requirements in IPSAS 32 and the requirements in IPSAS 17 and IPSAS 31. The requirements in IPSAS 32 could have been seen as requiring service concession assets to be presented as a single class of assets, even if they were of a dissimilar nature and function. As it ~~is~~ was not the intention of the IPSASB to require that dissimilar assets be reported as if they were similar, the IPSASB had decided to propose clarifications to IPSAS 32 to make its intentions clear. The IPSASB had considered whether these changes would reduce the information available to users, but ~~is~~ was satisfied that the then current disclosure requirements, in particular those in paragraph 32, would ensure high quality disclosures about assets subject to service concession arrangements. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

BC50. The IPSASB had noted that the reclassification of service concessions assets could require a change in measurement basis for some entities. For example, some service concession assets measured using the revaluation model, might have been reclassified into a class of assets measured using the cost model. Equally, some service concession assets that were measured using the cost model, might have been reclassified into a class of assets measured using the revaluation model. Because the balance between the service concession assets and the other assets in a class will vary from entity to entity, the IPSASB had agreed to permit entities to select the measurement basis to be applied at the point of reclassification. The IPSASB had also noted that the information required to retrospectively apply the cost model might not have been readily available. Consequently, the IPSASB had agreed to permit entities to use the carrying amounts determined under the revaluation model as deemed cost at the point of reclassification where an entity ~~elects~~ ed to measure a class of assets using the cost model. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45, while the cost model in IPSAS 17 is labeled the historical cost model.

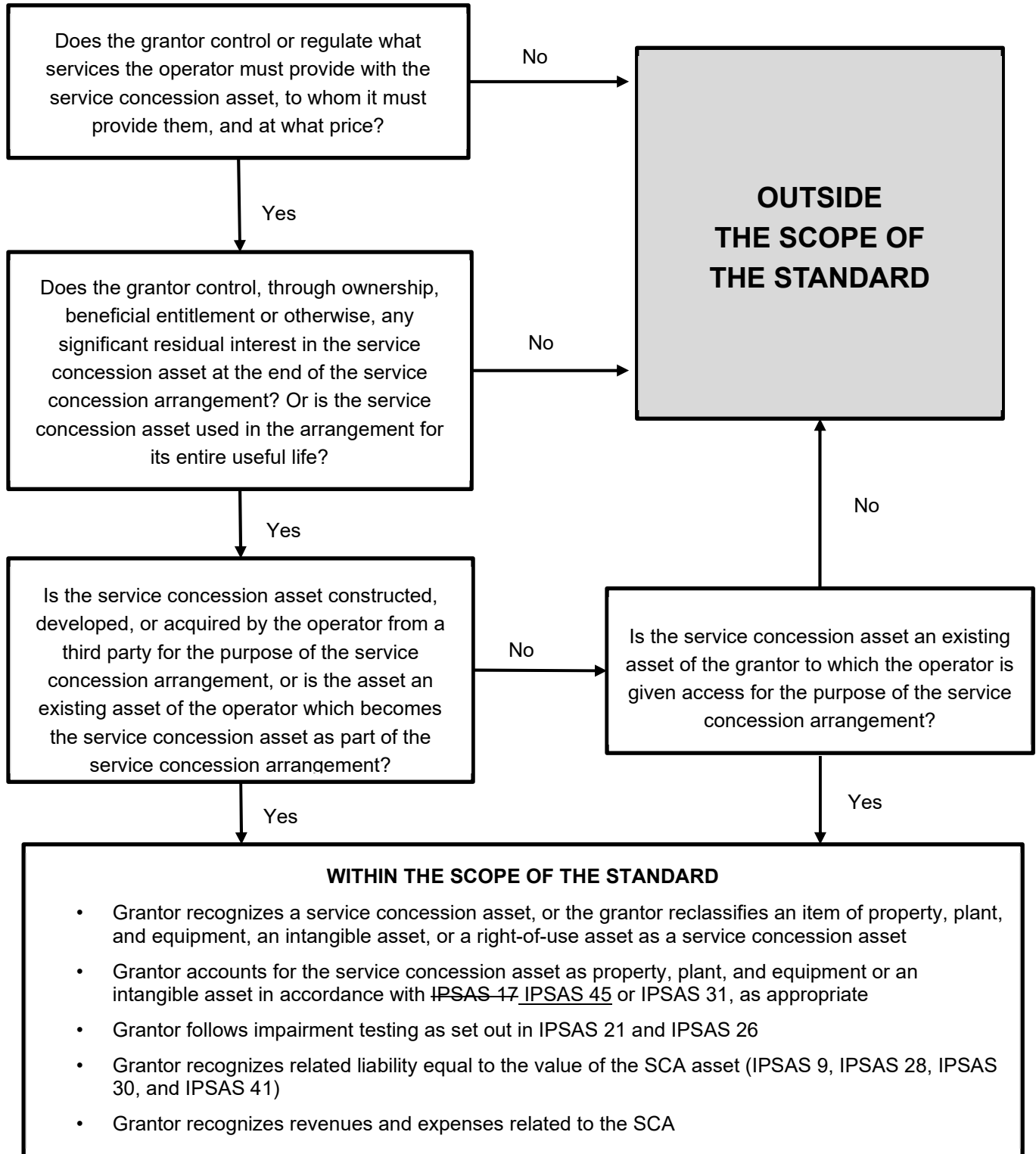
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Implementation Guidance

...

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.



References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

...

IG4. Shaded text shows arrangements within the scope of 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/Privatization/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 IPSASs	IPSAS 43	IPSAS 1	This IPSAS/IPSAS 17/IPSAS 45/IPSAS 31		IPSAS 17/IPSAS 45/IPSAS 31 (derecognition) ...	

Illustrative Examples

...

Arrangement Terms (Common to All Three Examples)

...

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in ~~IPSAS 17~~ IPSAS 45, Property, Plant, and Equipment when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs. It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base (substructure) and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

PROPERTY, PLANT, AND EQUIPMENT

...

IE8. At the beginning of year 3, the total fair value of the road is CU1,050, comprised of CU940 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with ~~IPSAS 17~~IPSAS 45). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

...

IE15. The grantor's accounting policy for property, plant, and equipment is to recognize such assets using the historical cost model specified in ~~IPSAS 17~~IPSAS 45.

Exhibit 1: Fair Values of the Components of the Arrangement (Currency Units)

Arrangement Component	Fair Value
Road – base layers (substructure)	940
Road – original surface layers	110
Total fair value of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

...

Financial Statement Impact

IE17. The grantor initially measures the service concession asset as property, plant, and equipment at its fair value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers), starting from year 3.

...

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE22. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

...

Table 1.2 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)
Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)

PROPERTY, PLANT, AND EQUIPMENT

Annual surplus/ (deficit)	–	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)
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NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
2. Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 7657 of IPSAS 17/IPSAS 45 requires that, “The depreciation method shall reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity.” Likewise, for intangible assets, paragraph 96 of IPSAS 31 requires that, “The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.”

Table 1.3 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/deficit	–	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17/IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

...

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

...

PROPERTY, PLANT, AND EQUIPMENT

...

Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

...

Table 2.2 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	–	–	–	–	–	–	–	–
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	–
Cumulative surplus/deficit	–	–	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~ IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 2.2).

The liability is increased in year 8 for the recognition of the new component of the service concession asset.

...

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

...

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

...

PROPERTY, PLANT, AND EQUIPMENT

IE39 The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the liability and Table 3.5 shows the changes in the financial liability.

Table 3.3 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	–
Financial liability	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	–
Cumulative surplus/deficit	–	16	38	59	74	86	93	95	95	91

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with ~~IPSAS 17~~IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 3.2).

The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Amendments to IPSAS 33, First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

Paragraphs 36, 48, 49, 64, 66, 67, 68, 69, 129, BC43, BC57, BC58, BC80, BC82, BC92, BC93, IG14, IG22, IG23, IG53, IG54, IG55, IG56, IG57, IG58 and IG91 are amended. Heading ahead of paragraph IG53 is amended. Paragraph 154L is added. New text is underlined, and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:
- (a) Inventories (see IPSAS 12, *Inventories*);
 - (b) Investment property (see IPSAS 16, *Investment Property*);
 - (c) Property, plant, and equipment (see ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*);
 - (d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);
 - (e) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);
 - (f) Intangible assets (see IPSAS 31, *Intangible Assets*);
 - (fa) Right-of-use assets and the related lease liabilities (see IPSAS 43, *Leases*);
 - (g) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);
 - (h) Financial instruments (see IPSAS 41, *Financial Instruments*); and
 - (i) Social benefits (see IPSAS 42, *Social Benefits*).

...

Other Exemptions

...

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

48. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure property, plant, and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for ~~IPSAS 17~~IPSAS 45 has expired, and/or the relevant asset is recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).
49. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize and/or measure property, plant, and equipment. ~~IPSAS 17~~IPSAS 45 requires an entity to include as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant, and equipment, a first-time adopter is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption that provided

the relief has expired, and/or when the relevant asset is recognized and/or measured in accordance with ~~IPSAS 47~~IPSAS 45 (whichever is earlier). The liability shall be measured as at the date of adoption of IPSASs, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognized and/or measured in accordance with the applicable IPSASs.

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

...

Using Deemed Cost to Measure Assets and/or Liabilities

64. **A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:**

- (a) **Inventory (see IPSAS 12);**
- (b) **Investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16;**
- (ba) **Right-of-use assets (see IPSAS 43);**
- (c) **Property, plant, and equipment (see ~~IPSAS 47~~IPSAS 45);**
- (d) **Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:**
 - (i) **The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**
 - (ii) **The criteria in IPSAS 31 for revaluation (including the existence of an active market);**
- (e) **Financial Instruments (see IPSAS 41); or**
- (f) **Service concession assets (see IPSAS 32).**

...

66. The use of deemed cost is not considered a revaluation or the application of the ~~fair~~ current value model for subsequent measurement in accordance with other IPSASs.

67. **A first-time adopter may elect to use the ~~revaluation~~ current value of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**

- (a) **Current operational value or ~~F~~fair value; or**
- (b) **Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.**

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at current operational value or fair value at one particular date because of a specific event:
- (a) If the measurement date is at or before the date of adoption of IPSASs, a first-time adopter may use such event-driven current operational value or fair value measurements as deemed cost for IPSASs at the date of that measurement.
 - (b) If the measurement date is after the date of adoption of IPSASs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven current operational value or fair value measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.
69. In determining the current operational value or fair value in accordance with paragraph 67, the first-time adopter shall apply the definition of current operational value or fair value and guidance in other applicable IPSASs in determining the current operational value or fair value of the asset in question. The current operational value or fair value shall reflect conditions that existed at the date on which it was determined.
- ...

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

129. **If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:**
- (a) **The carrying amounts determined in accordance with this IPSAS that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSASs, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity; or**
 - (b) **The carrying amounts required by the rest of this IPSAS, based on the controlled entity's date of adoption of IPSASs. These carrying amounts could differ from those described in (a):**
 - (i) **When the exemptions in this IPSAS result in measurements that depend on the date of adoption of IPSASs.**
 - (ii) **When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the historical cost model in ~~IPSAS 47~~IPSAS 45, whereas the economic entity may use the ~~revaluation~~current value model.**
- ...

Effective Date

...

154L. Paragraphs 36, 48, 49, 64, 66, 67, 68, 69, and 129 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

...

Basis for Conclusions

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

...

BC43. In considering the relief that should be provided to a first-time adopter for the recognition of its assets when this Standard was issued, the IPSASB had considered the then existing five year relief period in IPSAS 17. To encourage entities to prepare for the adoption of IPSASs in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB had agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSASs and not solely rely on the relief period provided in this IPSAS, the IPSASB was ~~is~~ of the view that the three year transitional period ~~is~~ was more manageable, and would ~~reduces~~ the period over which entities would ~~will~~ not be able to assert compliance with IPSASs. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

...

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSASs

...

BC57. When this Standard was issued, IPSAS 17 ~~required~~ an entity to include, as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17 ~~required~~ that the obligation for costs accounted for in accordance with IPSAS 17 ~~was~~ ~~is~~ recognized and measured in accordance with IPSAS 19.

BC58. The IPSASB had agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time as the relevant item of property, plant, and equipment ~~is~~ was recognized and/or measured in accordance with IPSAS 17. A transitional relief period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS*Deemed Cost*

Deemed Cost for Assets and/or Liabilities

BC80. Some measurements in accordance with IPSASs are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly and/or impractical. To avoid excessive cost, this IPSAS allows a first-time adopter to use the fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the historical cost model in IPSAS 16, property, plant and equipment, financial instruments and service concession assets at the date of adoption of IPSASs. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the fair value is the deemed cost at the date at which the asset is recognized and/or measured during the period of transition.

...

BC82. ~~Under~~ When this Standard was issued, under the revaluation model in IPSAS 17, if an entity revalues an asset, it ~~must~~ had to revalue all assets in that class. This restriction ~~prevented~~ selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, *Impairment of Non-cash-generating Assets* and IPSAS 26, *Impairment of Cash-generating Assets* ~~required~~ an impairment test if there ~~is~~ was any indication that an asset ~~is~~ was impaired. Thus, if a first-time adopter ~~used~~ fair value as deemed cost for assets whose fair value ~~is~~ was likely to be above cost, it could not ~~cannot~~ ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable when current operational value or fair value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

...

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC92. ~~The~~ When this Standard was issued, the IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost, if previous revaluations already ~~complied~~ with IPSASs. This IPSAS therefore ~~allowed~~ a first-time adopter to use a revaluation under its previous basis of accounting for property, plant, and equipment determined at or before the date of adoption of IPSASs, as deemed cost. This was allowed to ~~may~~ be used if the revaluation ~~is~~ was, at the date of the revaluation, broadly comparable to:

- (a) Fair value; or
- (b) Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.

BC93. In determining “fair value”, the guidance in each applicable IPSAS ~~is~~ was considered, where such guidance ~~is~~ was provided. In IPSAS 17 it ~~is~~ was noted that fair value ~~is~~ was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also ~~states~~ that if market-based evidence ~~is~~ was not available to measure items of property, plant, and equipment, an entity could ~~can~~ estimate fair value using replacement cost, reproduction cost or a service units approach. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles have been moved to IPSAS 46, *Measurement*. In reaching this conclusion, the IPSASB noted that IPSAS 45 refers to historical cost rather than cost and uses current operational value rather than fair value.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

...

IG14 If a first-time adopter has not adopted any of the exemptions in IPSAS 33 that affect fair presentation and its ability to claim compliance with accrual basis IPSASs, its first accrual financial statements will also be its first IPSAS financial statements.

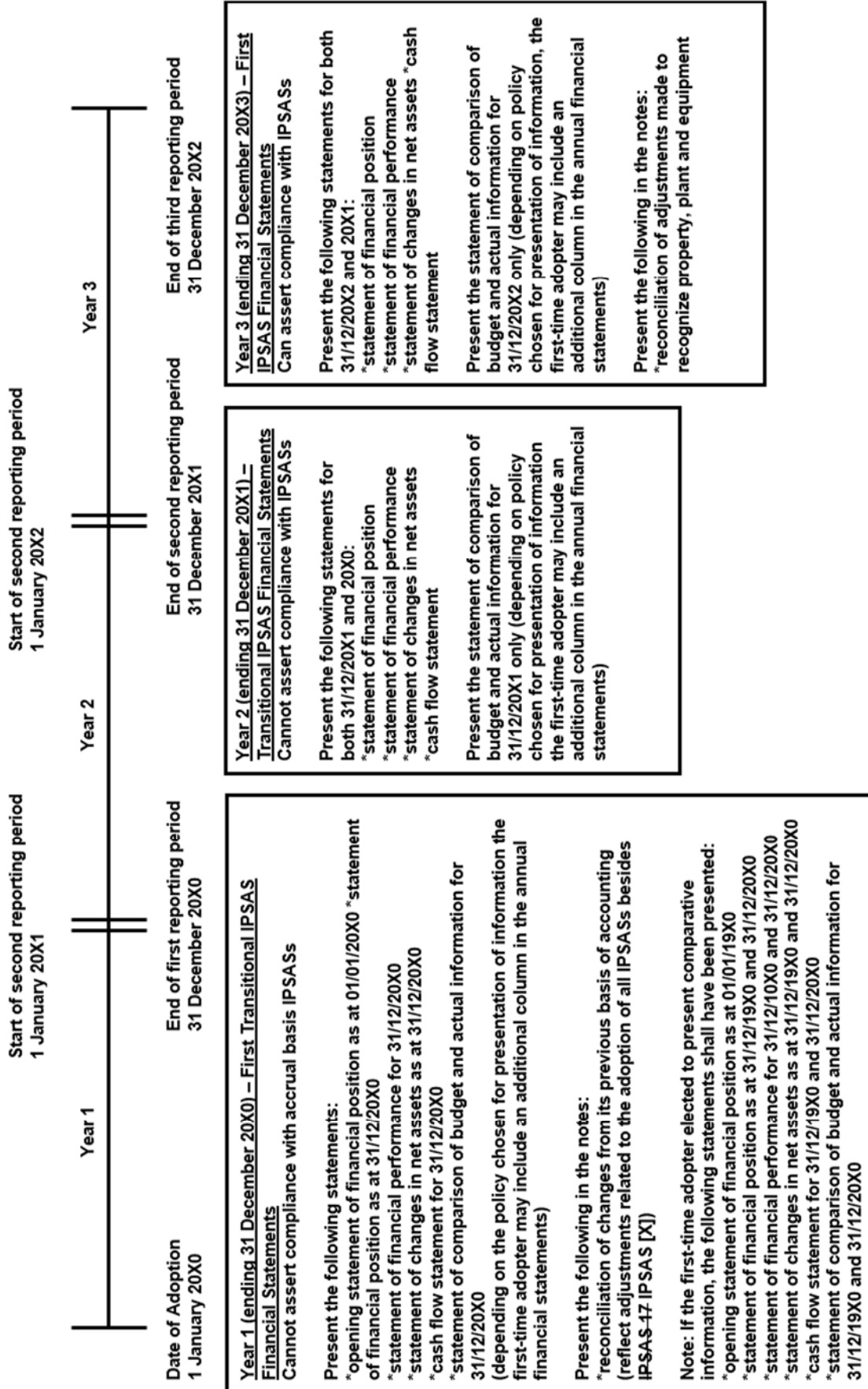
To illustrate:

Timeline – First Time Adoption IPSAS (assuming that entity elects to apply the three year transitional relief for the recognition and/or measurement of certain assets)

An entity adopts accrual basis IPSAS on 1 January 20X0 by applying IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

The first-time adopter elects to apply the three-year relief for the recognition of property, plant, and equipment. Assume that it does not adopt any other relief periods. It also elects not to present comparative information.

The first-time adopter recognizes all property, plant, and equipment by 31 December 20X0.



Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

...

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant, and Equipment

IG22. ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment* recognizes that in some cases, the construction or commissioning of an item of property, plant, and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant, and equipment and restore the site on which the asset is located. An entity is required to apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* in recognizing and measuring the resulting provision to be included in the initial cost of the item of property, plant, and equipment.

IG23. IPSAS 33 provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, until such time as the exemption for ~~IPSAS 17~~IPSAS 45 expires and/or the relevant asset is recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

...

~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*

IG53. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSASs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraph 22 and 26 of IPSAS 33 and paragraph ~~76~~57 of ~~IPSAS 17~~IPSAS 45). However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSASs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSASs.

IG54. A first-time adopter may elect to use one of the following amounts as the deemed cost of property, plant, and equipment:

- (a) Current operational value or ~~F~~fair value at the date of adoption of IPSASs (paragraph 67 of IPSAS 33), in which case the first-time adopter provides the disclosures -required by paragraph 148 of IPSAS 33; or
- (b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS 33.

IG55. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter determined the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier).

IG56. If a first-time adopter chooses as its accounting policy the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 for some or all classes of property, plant, and equipment, it presents the

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cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSASs is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the current operational value or fair value at the date of adoption of IPSASs or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with ~~IPSAS 17~~IPSAS 45 (whichever is earlier), the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33.

IG57. If revaluations in accordance with the first-time adopter’s previous basis of accounting did not satisfy the criteria in paragraphs 67 or 69 of IPSAS 33, the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

- (a) ~~Historical~~ Cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the historical cost model in ~~IPSAS 17~~IPSAS 45;
- (b) Deemed cost, being the current operational value or fair value or an alternative when market-based evidence of current operational value or fair value is not available, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or when the transitional exemptions expire (whichever is earlier); or
- (c) A revalued amount, if the entity adopts the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45 as its accounting policy in accordance with IPSASs for all items of property, plant, and equipment in the same class.

IG58. ~~IPSAS 17~~IPSAS 45 requires each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, ~~IPSAS 17~~IPSAS 45 does not prescribe the unit of measurement for recognition of an asset, i.e. what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity’s specific circumstances (see paragraphs 488 and 594).

...

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

...

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or	3 year transitional relief for disclosure	Elimination of transactions, balances,	Other

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					measurement		revenue and expenses	
...
<u>IPSAS 17</u> <u>AS 45</u> <i>Property, Plant, and Equipment</i>		√	√ Property, plant, and equipment not recognized under previous basis of accounting	√ Property, plant, and equipment recognized under previous basis of accounting				

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
		Do not affect fair presentation and -compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
...
<u>IPSAS 17</u> <u>AS 45</u> <i>Property, Plant, and Equipment</i> Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
...

...

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraph 33 is amended. Paragraph 51K is added. New text is underlined, and deleted text is struck through.

...

Application of the Equity Method

...

Equity Method Procedures

...

33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

...

Effective Date

...

- 51K. Paragraph 33 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

...

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 11, 53, and 123 are amended. Paragraph 176C is added. New text is underlined, and deleted text is struck through.

...

Short-Term Employee Benefits

...

Recognition and Measurement

All Short-Term Employee Benefits

11. When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- (a) **As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize**

that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

- (b) **As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IPSAS 12, *Inventories*, and ~~IPSAS 17~~IPSAS 45, *Property, Plant, and Equipment*).**

...

Post-Employment Benefits—Defined Contribution Plans

...

Recognition and Measurement

53. When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:

- (a) **As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**
- (b) **As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12 and ~~IPSAS 17~~IPSAS 45).**

...

Components of Defined Benefit Cost

...

123. Other IPSASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant, and equipment (see IPSAS 12 and ~~IPSAS 17~~IPSAS 45). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

...

Effective Date

...

176C. Paragraphs 11, 53 and 123 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

Amendments to IPSAS 40, Public Sector Combinations

Paragraphs BC82, IE167, IE168, IE169, IE170, IE171, IE180, IE185, and IE192 are amended. New text is underlined, and deleted text is struck through.

...

Basis for Conclusions

...

Accounting for Amalgamations (paragraphs 15-57)

...

Measurement Period

...

BC82. ~~The~~ When this Standard was issued, the IPSASB had considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity's accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant, and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate. In developing IPSAS 45, Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45 and IPSAS 17 referred to cost and fair value, while IPSAS 45, Property, Plant, and Equipment, refers to historical cost, current operational value and fair value.

...

Illustrative Examples

...

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26-27 and 36 of IPSAS 40

...

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model in ~~IPSAS 17~~ IPSAS 45, Property, Plant, and Equipment. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model in ~~IPSAS 17~~ IPSAS 45.

IE168. RE adopts an accounting policy of measuring property, plant, and equipment using the ~~revaluation~~ current value model. RE seeks an independent valuation for the items of property, plant, and equipment previously controlled by COA.

IE169. On receiving the independent valuation for the items of property, plant, and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant, and equipment as follows, with the corresponding entry being made to components of net assets/equity:

...

IE170. RE also reviews the carrying amounts of the items of property, plant, and equipment previously controlled by COB to ensure the amounts are up to dates at 1 October 20X5. The review confirms the carrying amounts of the items of property, plant, and equipment previously controlled by COB are up to date and that no adjustment is required.

IE171. RE recognizes the items of property, plant, and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph ~~6748~~ of ~~IPSAS 47~~IPSAS 45, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

...

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37-39 of IPSAS 40

...

IE180. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the ~~valuation~~ current value model. RE has adopted an accounting policy of measuring property, plant, and equipment using the ~~valuation~~ current value model. RE obtains an independent valuation for the items of property, plant, and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant, and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

...

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40-44 of IPSAS 40.

...

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the ~~valuation~~ current value model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the ~~valuation~~ current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and

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CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

...

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53-57 of IPSAS 40.

...

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

...

Paragraph reference		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant, and equipment recorded by COA to measure the items using the <u>revaluation-current value</u> model	12,116	17,954	30,070

...

Amendments to IPSAS 41, Financial Instruments

Paragraph BC11 is amended and BC11A is added. New text is underlined.

....

Basis for Conclusions

...

Initial Measurement

...

BC11. The IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that financial assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

BC11A. During the development of IPSAS 45, *Property, Plant, and Equipment* and IPSAS 46, *Measurement*, the requirement in IPSAS 23 for initial measurement of financial assets received through a non-exchange transaction was clarified to reflect that these are measured at fair value.

Amendments to IPSAS 43, *Leases*

Paragraphs 5, 31, 32, 36, 60, 84, 94, and AG45 are amended. Paragraph 103B is added. Heading ahead of paragraph 31 is amended. New text is underlined, and deleted text is struck through.

...

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

....

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately. The defined term useful life is used in this Standard with the meaning as in ~~IPSAS 47~~IPSAS 45, *Property, Plant, and Equipment*.

....

Lessee

....

Subsequent measurement

....

Historical Cost Model

31. To apply a historical cost model, a lessee shall measure the right-of-use asset at cost:
- (a) Less any accumulated depreciation and any accumulated impairment losses; and
 - (b) Adjusted for any remeasurement of the lease liability specified in paragraph 37(c).
32. A lessee shall apply the depreciation requirements in ~~IPSAS 47~~IPSAS 45 in depreciating the right-of-use asset, subject to the requirements in paragraph 33.

....

Other Measurement Models

....

36. If right-of-use assets relate to a class of property, plant, and equipment to which the lessee applies the ~~revaluation~~current value model in ~~IPSAS 17~~IPSAS 45, a lessee may elect to apply that ~~revaluation~~current value model to all of the right-of-use assets that relate to that class of property, plant, and equipment.

....

Disclosure

....

60. If a lessee measures right-of-use assets at revalued amounts applying ~~IPSAS 17~~IPSAS 45, the lessee shall disclose the information required by paragraph ~~9274~~ of ~~IPSAS 17~~IPSAS 45 for those right-of-use assets.

....

Lessor

Operating leases

Recognition and Measurement

....

84. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with ~~IPSAS 17~~IPSAS 45 and IPSAS 31.

....

Disclosure

Operating leases

94. For items of property, plant, and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of ~~IPSAS 17~~IPSAS 45. In applying the disclosure requirements in ~~IPSAS 17~~IPSAS 45, a lessor shall disaggregate each class of property, plant, and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by ~~IPSAS 17~~IPSAS 45 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

....

Effective Date

...

- 103B. **Paragraphs 5, 31, 32, 36, 60, 84, 94, and AG45 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

...

Application Guidance

...

Lessee Involvement with the Underlying Asset before the Commencement Date

Costs of the lessee relating to the construction or design of the underlying asset

....

AG45. If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as ~~IPSAS 47~~IPSAS 45. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

...

Amendments to IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations

Paragraphs 16, 32, 37 and BC7 are amended. Paragraph 58A is added. New text is underlined, and deleted text is struck through.

...

Classification of Non-current Assets (or Disposal Groups) as Held for Sale or as Held for Distribution to Owners

....

16. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with ~~IPSAS 47~~IPSAS 45, *Property, Plant, and Equipment*.

....

Recognition of Impairment Losses and Reversals

....

32. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition. Requirements relating to derecognition are set out in:

- (a) Paragraphs ~~82-87~~62-68 of ~~IPSAS 47~~IPSAS 45 for property, plant, and equipment; and
- (b) Paragraphs 111-116 of IPSAS 31 *Intangible Assets* for intangible assets.

...

37. The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in surplus or deficit⁷ from continuing operations in the period in which the criteria in paragraphs 12-15 or 19, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-

current asset that ceases to be classified as held for sale or as held for distribution to owners is a controlled entity, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of financial performance used to present a gain or loss, if any, recognized in accordance with paragraph 47.

- 7 Unless the asset is property, plant, and equipment or an intangible asset that had been revalued in accordance with ~~IPSAS 47~~IPSAS 45 or IPSAS 31 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

Effective Date

...

- 58A. **Paragraphs 16, 32, and 37 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

...

Basis for Conclusions

...

Scope

...

- BC7. ~~The~~When this Standard was issued, the IPSASB had also discussed whether disclosures requiring the carrying amount of surplus non-current assets or non-current assets that are to be transferred to other public sector entities should have been added to IPSAS 45~~47~~, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The IPSASB had decided that because these transactions were ~~are~~ beyond the scope of IPSAS 44 (as noted above in BC 6) and were ~~are~~ not consequential amendments arising from this Standard, it ~~is~~ was not appropriate to include a requirement for such disclosures in IPSAS 44. The IPSASB had also noted that IPSAS 45~~47~~ encourageds disclosures for temporarily idle property, plant, and equipment, and property, plant, and equipment retired from active use that is not within the scope of IPSAS 44. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Introduction

- BC1. IPSAS 17, *Property, Plant, and Equipment* was drawn primarily from International Accounting Standard (IAS) 16 (Revised 2003), *Property, Plant, and Equipment*. The IPSASB reviewed IASB's improvements to IFRS and narrow scope amendments to IAS 16 (up to May 2020) and generally concurred with the IASB's reasons for revising the IAS and with the amendments made with the exception noted in paragraphs BC24. The IPSASB revised IPSAS 17 to reflect these improvements and amendments, as appropriate.
- BC2. After considering responses to the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, and constituents' feedback on infrastructure assets the IPSASB concluded that:
- (a) IPSAS 17 should fully apply to heritage assets that are property, plant, and equipment; and
 - (b) Additional authoritative and non-authoritative guidance should be included in IPSAS 45 to clarify its application to heritage and infrastructure assets.

This resulted in the development of ED 78, *Property, Plant, and Equipment* proposing the replacement of IPSAS 17.

Background

Development of ED 78, Property, Plant, and Equipment

- BC3. In March 2020, the IPSASB had agreed that heritage assets should be recognized as property, plant, and equipment when they satisfy the IPSAS 17 definition and the recognition criteria (see paragraph 6). Because heritage assets are subsets of property, plant, and equipment and should be treated in accordance with the principles in IPSAS 17.
- BC4. The IPSASB developed ED 78 to update its existing property, plant, and equipment guidance in IPSAS 17 to help constituents apply the principles to heritage and infrastructure assets. To this effect, additional authoritative, and non-authoritative guidance was issued. The IPSASB notes that such guidance is applicable to all property, plant, and equipment.

Heritage Assets: Additional Guidance

- BC5. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional authoritative guidance to support the application and implementation of this Standard's principles to heritage assets. On the basis that no principles existed to address these topics, the IPSASB decided to add authoritative guidance on:
- (a) Characteristics of heritage assets (see paragraphs AG2-AG3);
 - (b) Heritage assets as a resource and assessment of control (see paragraphs AG9-AG11);
 - (c) Depreciation (see paragraphs 52-55 and AG28); and
 - (d) Disclosures on unrecognized heritage assets (see paragraphs 77-78 and paragraphs AG37-AG38).
- BC6. When developing ED 78, the IPSAS had considered whether IPSAS 45 should include additional non-authoritative guidance to enhance the consistency of entities' application and implementation

of IPSAS 45 to heritage assets. On this basis, the IPSASB decided to add non-authoritative guidance on:

- (a) Control (see paragraphs IG6-IG8);
- (b) Recognition related to subsequent expenditure on unrecognized heritage assets (see paragraph IG9);
- (c) Capitalization thresholds (see paragraphs IG10-IG14);
- (d) Measurement at current value (see paragraphs IG18-IG21); and
- (e) Depreciation related to useful lives (see paragraphs IG30-IG33).

BC7. In developing IPSAS 45, the IPSASB decided to include additional non-authoritative guidance as noted in this Basis for Conclusions:

- (a) Measurement of Heritage Assets (see Decision Tree in the Implementation Guidance); and
- (b) Measurement at current value (see paragraphs IG15-IG17).

Infrastructure Assets: Additional Guidance

BC8. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional guidance to enhance the consistency of entities' application and implementation of IPSAS 45 to infrastructure assets. The IPSASB decided to add authoritative guidance on:

- (a) Characteristics and examples of infrastructure assets (see paragraphs AG4-AG6);
- (b) Assessment of control (see paragraphs AG10-AG11); and
- (c) Identifying parts of infrastructure assets (see paragraph AG24).

BC9. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include non-authoritative guidance to enhance the consistency of the entities' application and implementation of IPSAS 45. On this basis, the IPSASB decided to add non-authoritative guidance on:

- (a) Control of land under or over infrastructure assets (see paragraphs IG1-IG5 and IE1-IE5);
- (b) Capitalization thresholds (see paragraphs IG10-IG14);
- (c) Valuing land under or over infrastructure assets (see paragraphs IG23-IG25);
- (d) Identifying parts of infrastructure assets (see paragraphs IG34-IG38);
- (e) Use of information in asset management plans for financial reporting (see paragraphs IG39-IG40); and
- (f) Under-maintenance of assets (see paragraphs IG41-IG44).

No Additional Guidance

BC10. When developing ED 78, on the basis that sufficient guidance existed, the IPSASB had concluded that no additional guidance was needed in IPSAS 45 to address:

- (a) A separate definition for infrastructure assets because they are property, plant, and equipment;
- (b) Spare parts for infrastructure assets;
- (c) Costs to dismantle infrastructure assets;

- (d) Separately accounting for land under or over infrastructure assets;
- (e) Renewals accounting;
- (f) Impairment; and
- (g) Derecognition.

The IPSASB included its rationale for not adding guidance to address these issues in the Basis for Conclusions to inform constituents that the IPSASB had considered these issues.

IPSAS 45, Property, Plant, and Equipment

- BC11. This Standard replaces IPSAS 17, *Property, Plant, and Equipment* and is based on IAS 16, *Property, Plant, and Equipment*. In accordance with existing practice, this Basis for Conclusions outlines only those areas where IPSAS 45 departs from the main requirements of IAS 16² or where the IPSASB considered further guidance is needed to enhance consistent application of principles to address a prevalent public sector specific issue.
- BC12. When developing this Standard, the IPSASB decided to relocate IPSAS 17 guidance that supports core principles to the application guidance, generic measurement guidance to IPSAS 46, *Measurement*, and add guidance for accounting for heritage assets and infrastructure assets in scope of the Standard. Responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the structure or principles in IPSAS 45.

Scope

Remove the Heritage Scope Exclusion Paragraphs

- BC13. The IPSASB concluded that the principles in IPSAS 45 should fully apply to heritage assets and decided to remove the scope exclusion for heritage assets, on the basis that:
- (a) Recognition of heritage assets will increase the transparency of heritage-related financial information so that users are better able to hold entities accountable for their heritage-related decisions, particularly those that support heritage preservation;
 - (b) Their heritage nature does not prevent heritage items being assets for financial reporting purposes;
 - (c) Many heritage items are assets and should be recognized in the statement of financial position when they meet the IPSAS 1, *Presentation of Financial Statements* recognition criteria of an asset;
 - (d) Since the heritage nature of an item is not, by itself, a reason for special financial reporting requirements, a separate heritage focused IPSAS is unnecessary; and
 - (e) Where heritage items are within the scope of another IPSAS, that Standard should apply (for example, IPSAS 31, *Intangible Assets* should be applied for heritage assets that are intangible in nature).

² The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's Comprehensive Subscription Service can view the Bases for Conclusions on the IASB's website at <http://www.iasb.org>.

Move List of Property, Plant, and Equipment to Application Guidance

BC14. The IPSASB noted that the list of different types of property, plant, and equipment included in the scope of IPSAS 17 was more in the nature of application guidance than that of principles to be included in core text. On this basis, the IPSASB had decided that the list and related descriptions should be moved to the application guidance.

Definition of Property, Plant, and Equipment*Definition of Property, Plant, and Equipment*

BC15. The IPSASB had noted that the definition of property, plant, and equipment in IPSAS 17 referred to ‘tangible items’ instead of ‘tangible assets’ and that a strict application of this definition could lead to the recognition of an item that did not meet the definition of an asset in IPSAS 1 or the *Conceptual Framework*³. The lack of reference to ‘asset’ caused confusion in practice because there are instances when it is uncertain whether an item is a resource or it is controlled by the entity. To address the uncertainty, the IPSASB had decided to:

- (a) Replaced the term “tangible items” with “tangible assets,” in the definition of property, plant, and equipment (see paragraph 5);
- (b) Added authoritative guidance on resource and control (see paragraphs AG9 and AG10-AG11 respectively); and
- (c) Added non-authoritative implementation guidance and illustrative examples on control (see paragraphs IG1-IG8 and IE1-IE5 respectively).

BC16. One of the responses received to ED 78 noted that paragraphs AG8-AG15 of ED 78 were a duplication of content found in the *Conceptual Framework* and suggested removing the content and instead, make a cross-reference to the *Conceptual Framework*. The IPSASB discussed that this authoritative guidance was added to ED 78 to ensure consistency of principle application, specifically to help an entity determine whether an item met all three criteria of the definition of an asset, but specifically two of the three criteria of an asset, resource and control. Rather than removing the guidance and adding a cross-reference to the *Conceptual Framework*, the IPSASB decided to keep guidance on the two key topics (i.e., whether a heritage item is a resource and assessment of control for both heritage and infrastructure items).

Characteristics of Heritage and Infrastructure Assets

BC17. The IPSASB had decided neither heritage nor infrastructure assets needed to be defined, because they were subsets of property, plant, and equipment and therefore, the principles in this Standard apply to heritage and infrastructure assets.

BC18. Based on responses to the Heritage CP and constituents’ comments related to infrastructure, the IPSASB had concluded that ED 78 should include application guidance, including specific characteristics of heritage and infrastructure, to help entities identify their heritage assets (see paragraphs AG2-AG3) and infrastructure assets (see paragraphs AG4-AG6) from other property, plant, and equipment. The IPSASB had decided to only include characteristics that distinguished

³ An asset is defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and IPSAS 1, *Presentation of Financial Statements* and contains three common components: resource(s), control and past event.

heritage and infrastructure assets from other property, plant, and equipment, and which presented complexities in the application and implementation of the principles in ED 78, as opposed to including an exhaustive list of the characteristics of heritage and infrastructure assets.

- BC19. A few responses to ED 78 recommended the IPSASB to expand AG3(a) to reflect that heritage assets also have restrictions on their disposal, which present complexities in the application and implementation of ED 78 principles, specifically on the measurement of heritage assets. The IPSASB agreed that restrictions on the disposal of heritage assets, similarly to restrictions on their use, present complexities in the application and implementation of IPSAS 45 principles, although not a unique characteristic to heritage assets.
- BC20. In developing IPSAS 45, the IPSASB decided to expand the characteristics for heritage assets and to retain the characteristics for infrastructure assets from ED 78 in IPSAS 45. Except as noted in BC19, responses to ED 78 on heritage and infrastructure assets characteristics did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

Recognition

Deemed Cost of Non-Exchange Transactions

- BC21. When developing ED 78, the IPSASB decided to replace the terminology of 'fair value' on the initial measurement of a non-exchange transaction of an item or property, plant, and equipment with 'deemed cost'. This was proposed for alignment with the initial measurement principles in IPSAS 46.
- BC22. A response to ED 78 suggested a definition of deemed cost be included in IPSAS 45. The IPSASB discussed that deemed cost for assets acquired in a non-exchange transaction is fair value, in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*. The IPSASB noted that ED 78's proposal added unintended complexity as it now required an entity to review IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* to understand which measurement basis to apply for deemed cost of a non-exchange transaction at recognition. However, the proposal was not intended to change the initial measurement of Plant, Property, and Equipment acquired in a non-exchange transaction.
- BC23. Following the development of current operational value in IPSAS 46, the IPSASB discussed how to measure 'deemed cost' and concluded that fair value or current operational value are appropriate. The IPSASB further decided the guidance on deemed cost would be included in IPSAS 46.

Weapons Systems

- BC24. When IPSAS 17 was revised as a result of Part III of *Improvements to IPSASs 2015*, the IPSASB had considered that Government Finance Statistics (GFS) reporting guidelines use the term "weapons systems" to comprise items that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. At that time, the IPSASB had concluded that replacing the IPSAS term "specialist military equipment" with the GFS term "weapons systems" and including a description would clarify the applicability of IPSAS 17 while increasing consistency with GFS reporting guidelines. In developing IPSAS 45, the IPSASB

concluded that the same principles should apply and continued to use the term “weapons systems” with a description (see paragraph AG7).

Heritage Assets: The Operational/Non-Operational Distinction

- BC25. The IPSASB had considered whether only those heritage assets that are used for non-heritage purposes, called “operational” heritage assets, should be recognized. Operational heritage assets include, for example, a heritage bridge that functions as a bridge or a heritage railway station that is used as a railway station. Some national jurisdictions use the term “non-operational” to describe heritage assets that are used purely for heritage purposes. For example, museum collections held for public appreciation are non-operational heritage assets. Some constituents argued that non-operational heritage assets should not be recognized.
- BC26. However, the IPSASB had concluded that both operational and non-operational heritage items can be assets, since both can meet the IPSAS 1’s definition of an asset (resource, control, past event). On this basis, the IPSASB had decided that the distinction is not relevant to a decision on whether or not to recognize a heritage item as an asset.

Spare Parts for Infrastructure Assets

- BC27. The IPSASB considered whether ED 78 provided sufficient guidance on the accounting treatment of spare parts for infrastructure assets. The IPSASB had concluded that accounting for spare parts is a generic issue and that sufficient authoritative guidance existed in ED 78 for infrastructure asset spare parts that meet the definition of property, plant, and equipment, and in IPSAS 12, *Inventories* for spare parts that meet the definition of inventory.

Capitalization Thresholds

- BC28. The IPSASB considered the issues identified by constituents with respect to establishing capitalization thresholds for costs related to infrastructure assets. The IPSASB had concluded that this issue applies broadly to property, plant, and equipment, and that any guidance should also apply broadly, and not be restricted to applying only to infrastructure assets.
- BC29. The IPSASB had noted that this issue is generally considered to be a practical issue that is best addressed by management. Entities’ management consider their specific assets holdings, and apply the need to meet users’ information needs, materiality, and cost-benefit. However, the IPSASB concluded that there is scope for guidance on the factors for consideration when entities set their capitalization thresholds. On this basis, the IPSASB decided to add implementation guidance (see paragraphs IG10-IG14) on the factors to consider when establishing capitalization thresholds for property, plant, and equipment.

Disclosures Related to Unrecognized Heritage Property, Plant, and Equipment

- BC30. When developing ED 78, the IPSASB had considered the issues identified by constituents with respect to disclosures related to unrecognized heritage assets. Being able to measure an asset in a way that achieves the qualitative characteristics and takes account of the constraints on information included in General Purpose Financial Statements (GPFSS) is necessary for recognition of an asset in the financial statements. ED 78 stated, in paragraph 6, that property, plant, and equipment must be measured reliably to be recognized. The IPSASB had agreed with constituents that heritage assets may present measurement difficulties which prevent their recognition, but that information on such assets could be important to meet users’ needs.

- BC31. In considering the need for additional disclosures when heritage property, plant, and equipment is not recognized, the IPSASB had noted that, as explained in the *Conceptual Framework*, disclosures in the notes to the financial statements:
- (a) Can provide information on elements that cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting;
 - (b) Are appropriate when knowledge of the item is relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting; and
 - (c) May include items that do not meet the recognition criteria but are important to an understanding of the entity's finances and ability to deliver services.
- BC32. The IPSASB had noted that there were cases where the cost or current value of heritage property, plant, and equipment was not able to be measured reliably and therefore, the assets could not be recognized. Information about the contribution of such assets to the delivery of the entity's objectives would nonetheless be useful to users of the financial statements.
- BC33. The IPSASB had decided to include a requirement for additional disclosures on heritage property, plant, and equipment that is not recognized because it cannot be measured reliably on the basis that such information contributes to:
- (a) Achievement of the objectives of financial reporting; and
 - (b) Users' understanding of the entity's finances and ability to deliver services for accountability and decision-making purposes.
- Therefore, ED 78 included paragraph 77, which established that additional disclosures were required, and application guidance for such disclosures was added in paragraphs AG37-AG38.
- BC34. Responses to ED 78 requested for the disclosure requirement to be expanded to either infrastructure assets or to all property, plant, and equipment that is not recognized because it cannot be measured reliably. The IPSASB noted that measurement challenges, which prevent recognition of a tangible asset, were specific to heritage assets.
- BC35. In developing IPSAS 45, the IPSASB decided to retain the ED 78 proposal in IPSAS 45 because the responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

- BC36. The IPSASB considered constituents' views on additional guidance on decisions to capitalize or expense subsequent expenditure on unrecognized heritage assets. The IPSASB concluded that there is sufficient authoritative guidance addressing heritage-related concerns. The IPSASB's decision to not have a heritage scope exclusion in ED 78, resulted in the Standard's authoritative guidance fully applying to heritage assets. Therefore, heritage assets that satisfy the recognition criteria shall be recognized. Given measurement difficulties associated with heritage assets, however, the IPSASB acknowledged that some heritage assets may not be able to be recognized. The IPSASB decided that application guidance should be added (see paragraph AG20) to establish that paragraph 6's principles apply to the recognition of subsequent expenditure on unrecognized heritage assets. The IPSASB further decided to include additional implementation guidance (see paragraph IG9), which is needed to support decisions on when to capitalize or expense subsequent expenditure on unrecognized heritage property, plant, and equipment.

Measurement

Measurement of Heritage Assets

BC37. The IPSASB received requests for additional non-authoritative guidance for the recognition and measurement of heritage assets. The IPSASB decided to add implementation guidance, which walks an entity through the recognition criteria, in paragraph 6, and includes initial measurement considerations to help an entity in the recognition and measurement of heritage assets.

Initial Measurement

BC38. A response to ED 78 noted a cross reference to ED 77, *Measurement* on initial measurement stating an entity shall apply ED 77 when measuring an item of property, plant, and equipment. The respondent asked the IPSASB to clarify the scope of each standard and on the terminology differences for initial measurement between ED 78 and ED 77, 'at cost' and 'at transaction price' respectively.

BC39. The IPSASB discussed that terminology in IPSAS 45 was carried forward from IPSAS 17, to reflect continued alignment with IAS 16 terminology and that this core principle from IPSAS 17 remains unchanged. Additionally, the IPSASB noted that ED 78 contained specific initial measurement guidance (see paragraph 11) and guidance in ED 77 is generic, therefore not developed to replace existing detailed guidance in any specific IPSAS.

BC40. In developing IPSAS 45, the IPSASB decided to:

- (a) Retain IPSAS 17 terminology 'at cost' for initial measurement;
- (b) Remove the cross reference from IPSAS 45, *Property, Plant, and Equipment* to IPSAS 46 on initial measurement of property, plant, and equipment to remove the circularity between these standards; and
- (c) Revise paragraph 5 in IPSAS 46 to reflect that when specific guidance on initial and subsequent measurement is included in an individual IPSAS, such guidance shall be applied.

Elements of Cost

Costs to Dismantle Infrastructure Assets

BC41. The IPSASB considered whether sufficient guidance existed for accounting for costs to dismantle infrastructure assets when there is a need to highlight the impact of the future environmental or decommissioning costs on the value of acquired property, plant, and equipment, including infrastructure assets.

BC42. The IPSASB decided that this issue was not specific to infrastructure assets, and no additional guidance was necessary, because sufficient authoritative guidance existed in:

- (a) ED 78 that stated that the cost of an item of property, plant, and equipment included the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and
- (b) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* that requires a public sector entity to recognize a provision for decommissioning costs to the extent that the public sector entity is obliged to rectify damage already caused.

*Subsequent Measurement**Accounting Policy Choice*

- BC43. The IPSASB considered whether additional guidance was necessary to assist in making the accounting policy choice of subsequently measuring classes of property, plant, and equipment either on a historical cost or current value model.
- BC44. The IPSASB concluded no additional guidance was needed. Management should continue to apply its judgment in choosing an accounting policy that results in information that:
- (a) Is relevant to the accountability and decision-making needs of users;
 - (b) Faithfully represents the financial position, financial performance, and cash flows of the entity;
 - (c) Meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability; and
 - (d) Considers the constraints on information included in GPFs and the balance between the qualitative characteristics.

*Current Value Model**Measurement Bases*

- BC45. During the development of IPSAS 46, the IPSASB had considered concerns raised by respondents with regard to the application of fair value in the public sector. While respondents agreed fair value was applicable in some circumstances, they raised concerns about its applicability to public sector assets held for their operational capacity. Respondents suggested it was inappropriate to apply fair value to those assets because the following concepts are not applicable:
- (a) Highest and best use; and
 - (b) Maximizing the use of market participant data.
- BC46. The IPSASB had decided to address respondents' concerns by developing a public sector specific measurement basis – Current Operational Value. This measurement basis addressed the measurement of assets held for their operational capacity.
- BC47. When developing ED 78, the IPSASB had proposed that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value.
- BC48. Some responses to ED 78 raised concerns about basing the measurement basis on management's intent, particularly as it will reduce the comparability of financial statements and reduce consistency of principle application. These respondents were of the view that the selection between measurement bases should be driven by facts and circumstances, such as the reason why the asset is held, and that a change between measurement bases is only appropriate when there is a change in the primary objective for which the entity holds the asset.
- BC49. Other responses to ED 78 requested additional non-authoritative guidance on when a change between current value measurement bases was appropriate and how to make the selection between measurement bases, as it may be difficult to determine whether an asset is held for operational or financial capacity (for example, a mixed-use office building) if the measurement bases are applied to an entire class of property, plant, and equipment.

- BC50. The IPSASB acknowledged that current operational value was developed to address a public sector specific need for a measurement basis that was more representative of the current value of assets held for their operational capacity in the public sector. The IPSASB further discussed, as noted in BC45(a) and BC45(b), that it was inappropriate to apply fair value concepts of ‘highest and best use’ and ‘maximizing the use of market participant data’ for assets held for their operational capacity.
- BC51. The IPSASB agreed that it would seem contradictory for the decision of measurement basis in the current value model to be a free choice, considering the guidance included in paragraph 29 and AG26-AG27 of ED 78 and the reason behind the development of current operational value as a measurement basis for public sector assets held for their operational capacity.
- BC52. The IPSASB also discussed whether the measurement bases should be applied to an entire class of property, plant, and equipment or whether it should be applied at the item or part of an item of property, plant, and equipment level, taking into consideration mixed-use assets (BC49). Additionally, the IPSASB considered whether a cross reference from IPSAS 45 to IPSAS 46 was needed to help entities on the selection of current value measurement bases.
- BC53. The IPSASB concluded that
- (a) An item or part of an item of property, plant, and equipment held for its operational capacity shall be measured at its current operational value, and when it is held for its financial capacity, it shall be measured at fair value (see paragraph 27);
 - (b) Deemed cost could be measured using either current operational value or fair value;
 - (c) While measurement models are to be applied to an entire class of property, plant, and equipment, the measurement bases are to be applied to an item or part of an item of property, plant, and equipment (see paragraphs 27-28, AG20-AG23 and IG15);
 - (d) To include additional implementation guidance on when a change between current value measurement bases is appropriate (see paragraphs IG16-IG17); and
 - (e) A cross reference from IPSAS 45 to IPSAS 46 is not necessary because application guidance on whether property, plant, and equipment is held for operational or financial capacity is included in this Standard (see paragraphs AG20-AG23).

Current Value Measurement of Heritage Assets

- BC54. The IPSASB considered constituents’ views on the need for guidance on application of the current value model to heritage assets. The IPSASB decided that additional implementation guidance is needed on measurement at current value when heritage assets are viewed as irreplaceable, and have restrictions on their use to ensure consistent application and implementation of this Standard’s principles (see paragraphs IG19-IG22).

Valuing Land Under or Over Infrastructure Assets

- BC55. The IPSASB considered whether existing guidance in IPSAS 17 addressed the approach to valuing land under or over infrastructure assets such as land under roads and railways.
- BC56. The IPSASB decided to add non-authoritative implementation guidance to this Standard to clarify the existing principles related to the valuation of land under or over infrastructure assets (see paragraphs IG23-IG25).

Depreciation

Finite and Indefinite Useful Lives

- BC57. When developing this Standard, the IPSASB noted that generally, land has an indefinite useful life and therefore, is not depreciated. Exceptions, where land should be depreciated include:
- (a) Land is being consumed due to depletion (such as mines and quarries or landfill sites); or
 - (b) Land is being lost or displaced as a result of natural phenomena such as climate change (for example, rock or soil erosion, or desertification).
- BC58. The IPSASB decided that the IPSAS 17 discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated (see paragraphs 52-55). During its consideration of this issue and those raised by heritage assets' useful lives, the IPSASB decided that the terminology of finite and indefinite useful lives, as used in IPSAS 31, should be used in ED 78. This provided consistent terminology across IPSAS when considering useful lives for asset depreciation.
- BC59. The IPSASB further decided that the revised core text and related application guidance should also provide guidance to address situations where items of property, plant, and equipment (e.g., heritage assets, discussed further below) could have indefinite useful lives and therefore, should not be depreciated.
- BC60. The IPSASB considered that most non-land property, plant, and equipment have finite useful lives. On this basis, the IPSASB decided to include a rebuttable presumption that non-land property, plant, and equipment has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land property, plant, and equipment as having an indefinite useful life (see paragraph 52).

Depreciation of Heritage Assets

- BC61. When developing ED 78, the IPSASB had concluded based on responses to the CP, *Financial Reporting for Heritage in the Public Sector*, that the same depreciation requirements applied to other types of property, plant, and equipment shall apply to heritage assets. Where respondents disagreed with that approach, some argued against depreciation, while others stated that guidance was needed on how to estimate heritage assets' useful lives and identify heritage assets for which there is no depreciation expense. On the basis that many heritage assets were consumed over time, as they delivered services and/or economic benefits, the IPSASB had concluded that heritage assets can be depreciable assets.
- BC62. However, the IPSASB had further concluded that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they were held. On this basis, the IPSASB had decided that useful lives should be clarified to apply to situations where property, plant, and equipment have indefinite useful lives.
- BC63. To support entities' assessments of whether a heritage asset has a finite or indefinite useful life, the IPSASB had decided to add non-authoritative implementation guidance (see paragraphs IG30-IG33).

Identifying Parts of Infrastructure Assets that Should Be Separately Depreciated

- BC64. The IPSASB considered whether it was a challenge to determine the appropriate unit of account when identifying significant parts of infrastructure assets that should be separately depreciated.
- BC65. The IPSASB noted the existing principles are clear that an asset could have different units of account for depreciation because parts of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately. This principle holds true for infrastructure assets, but judgment needs to be exercised in determining or identifying the units of account, which may be separate assets in their own right (see paragraph 8).
- BC66. The IPSASB decided to revise the example in paragraph AG6 which listed a number of assets (such as curbs and channels, pavements and bridges) that make up the road system as the units of account or parts that should be identified for separate recognition and depreciation to illustrate the principle of depreciating separately the parts of items of property, plant, and equipment at the appropriate level.
- BC67. The IPSASB acknowledged that the separate units of account described in the example may be relevant in some jurisdictions but considered that jurisdictions will apply judgment in determining the appropriate units of accounts for their circumstances.
- BC68. The IPSASB decided to add implementation guidance (see paragraphs IG34-IG38).

Annual Impairment Tests for Property, Plant, and Equipment with Indefinite Useful Lives

- BC69. The IPSASB had decided that where an entity has assessed property, plant, and equipment as having indefinite useful lives it is important that the assets be reviewed regularly for indicators of impairment. On this basis the IPSASB decided to insert a requirement for annual reviews for indicators of impairment applied to such assets into ED 78 (see paragraph 56).

Separately Accounting for Land and Infrastructure Assets

- BC70. The IPSASB considered the issue of whether land and infrastructure assets are separate assets that should be separately accounted for.
- BC71. The IPSASB decided that no additional authoritative guidance should be included in ED 78 because the guidance is clear that:
- (a) Land and buildings are separable assets and are accounted for separately (e.g., separate recognition and measurement) even when they are acquired together (see paragraph 50); and
 - (b) Land, buildings, roads and electricity transmission networks are examples of separate classes of property, plant, and equipment that should be separately disclosed (see paragraphs 34 and 69).

Renewals Accounting

- BC72. The IPSASB considered whether “renewals accounting” was an appropriate technique to estimate depreciation of property, plant, and equipment when these are managed in accordance with a detailed asset management plan.

BC73. The IPSASB concluded there is no definitive “renewals accounting” method and that this technique should not be used in its literature to estimate depreciation of property, plant, and equipment given the numerous interpretations across different jurisdictions.

Use of Information in Asset Management Plans for Financial Reporting

BC74. When developing this Standard, the IPSASB had noted that many public sector entities have asset management plans that facilitate the proper management of an item of property, plant, and equipment over its life cycle. These asset management plans are usually developed by qualified experts and focus on the operational aspects of the item of property, plant, and equipment.

BC75. The IPSASB noted that, where these asset management plans are kept up to date by qualified experts and the information is reliable, these plans could provide detailed information relevant for accounting for property, plant, and equipment.

BC76. The IPSASB decided to add implementation guidance to clarify when asset management plans might provide information useful for financial reporting purposes when accounting for property, plant, and equipment (see paragraphs IG39-IG40).

Impairment

Liabilities for Future Preservation/Maintenance of Heritage and Infrastructure Assets

BC77. When developing this Standard, the IPSASB considered whether an entity’s intention to preserve and/or maintain heritage and infrastructure assets could give rise to liabilities. For a liability to exist the entity must have an unavoidable present obligation (i.e. little or no realistic alternative to avoid) to incur future expenditure to an external party.

BC78. While acknowledging that entities who hold heritage and infrastructure assets often intend to preserve and/or maintain them and there may be expectations on the entity to do so, the IPSASB concluded that neither intentions nor expectations are sufficient to establish a present obligation

BC79. The IPSASB concluded no liability arises from the entity’s plan and/or intention to preserve and/or maintain heritage and infrastructure assets, unless there were arrangements in place that create an obligation to an external party for the entity.

Impairment of Heritage and Infrastructure Assets

BC80. The IPSASB considered if sufficient guidance existed on whether an infrastructure asset is impaired when one part of the network or system becomes damaged or inoperable. The IPSASB also considered whether additional guidance is needed to address the impairment of heritage assets.

BC81. The IPSASB decided no additional guidance is necessary because sufficient authoritative impairment guidance exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, to adequately address the impairment of both heritage and infrastructure assets, including guidance for entities to determine when a part of the network or system was impaired.

Under-Maintenance of Assets

BC82. The IPSASB considered the issue that guidance did not articulate whether “backlog maintenance” or “deferred maintenance” should be recognized in the financial statements.

- BC83. The IPSASB had decided not to use the terms, “backlog maintenance” or “deferred maintenance” because the terms have several interpretations and applications across different jurisdictions. The IPSASB clarified that the issue highlighted by constituents related to the “under-maintenance of assets”.
- BC84. Even though IPSAS 17 principles are clear on the accounting for assets that are “under-maintained”, the IPSASB decided to add implementation guidance to clarify the accounting for “under-maintenance of assets” in ED 78 (see paragraphs IG41-IG44).

Recoverable Amount

- BC85. IAS 16 defines recoverable amount as “the higher of an asset’s fair value less costs of disposal and its value in use.” IPSAS 17 refers to the IPSAS 26 definition of recoverable amount which is defined as “the higher of an asset’s or cash generating unit’s fair value less costs to sell and its value in use.” The definition in IPSAS 17 is the same as in IPSAS 26 but differs slightly from the definition in IAS 16. In developing IPSAS 45, the IPSASB noted that this departure from IAS 16 on the definition of recoverable amount is still applicable in IPSAS 45.

Derecognition

Derecognition of Infrastructure Assets

- BC86. When developing this Standard, the IPSASB had considered whether sufficient derecognition guidance with respect to accounting for infrastructure assets existed. The IPSASB had noted the derecognition issue arised because parts of infrastructure assets were constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.
- BC87. The IPSASB decided not to add additional derecognition guidance in this Standard because sufficient authoritative derecognition guidance exists and the challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appeared administrative and related to record keeping.

Presentation—Display and Disclosure

Heritage: Focus on Information in the Financial Statements

- BC88. When developing this Standard, the IPSASB noted that some jurisdictions disclosed supplementary information about heritage assets as a substitute for recognizing heritage assets in the financial statements. Supplementary disclosures may include qualitative information that is not commonly included in the financial statements. This type of information could be useful for broader accountability purposes such as reporting on an entity’s heritage-related service performance.
- BC89. The IPSASB concluded that it would focus on guidance related to the financial statements on the basis that the *Recommended Practice Guidelines* (RPGs) provides sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements. The RPGs allow entities to align heritage-related supplementary information to the specific information needs arising from their heritage holdings, heritage-related objectives, and national or local context.

Transitional Provision

BC90. When developing ED 78, the IPSASB had decided that IPSAS 45 shall be applied retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except that an entity may elect to measure heritage assets at current value when reliable cost information for these assets was not available. In developing IPSAS 45, the IPSASB acknowledged that an additional transitional provision was needed for the initial application of IPSAS 45 current value measurement bases. The IPSASB decided to include additional authoritative guidance reflecting that rather than restating comparative periods, an entity shall recognize the effect of initially applying current operational value and fair value basis in the current value model as an adjustment to the opening accumulated surplus or deficit at the date of initial application of IPSAS 45 (see paragraph 87(b)).

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

- IG1. **Assessing Control:** An entity controls a resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. Paragraph AG10 identifies the indicators of control as follows:
- (a) Legal ownership;
 - (b) Access to the resource, or the ability to deny or restrict others to access the resource;
 - (c) The means to ensure that the resource is used to achieve its objectives; or
 - (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.
- IG2. **Control over tangible items:** This implementation guidance focuses on control over items of property, plant, and equipment, where the resource is represented by a tangible item. Intangible assets arising from a loan, lease or other type of “right to use” are not addressed in this implementation guidance because they are outside of IPSAS 45’s scope.
- IG3. **Apply judgment:** The entity applies judgment to the facts of each situation when:
- (a) Assessing the existence of indicators of control; and
 - (b) Reaching a view on whether or not control exists.

Control of Land Under or Over Property, Plant, and Equipment

Property, plant, and equipment can be built on land that is fundamental to the operation of the item but is owned by another entity. For example, State or Municipal Governments may construct road networks on land that is owned by another level of government. Should the entity that controls the property, plant, and equipment also recognize the land?

- IG4. Where an item of property, plant, and equipment is built on land owned by another level of government, legal ownership of that land will not be held by the entity constructing the property, plant, and equipment. However, legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it.
- IG5. When assessing whether land, owned by another level of government, under an item of property, plant, and equipment is controlled by the entity, the entity considers the rights it has to continue to operate the item of property, plant, and equipment. If the ongoing operation of the item of property, plant, and equipment is dependent on the other level of government continuing to grant the entity access to the land, it is unlikely the entity controls the land.

Control over Items in a Heritage Collection

Does an entity have control over items in its heritage collection, when it only has the right to hold the items temporarily, for a defined period under an agreement (or agreements) with another entity (or entities) or individual (group of individuals)?

IG6. No. The entity does not have control over these items in its heritage collection. Applying the application guidance in IPSAS 45 and judgment to the facts of the situation the entity does not have control over the resource represented by the items. This is indicated by the entity only holding the item temporarily, for a defined period. The entity does not have the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives. However, another Standard could apply, for example one that addresses leases or similar arrangements, which includes intangible rights to use a tangible resource within its scope.

Does an entity have control over items in its heritage collection, when it does not have legal ownership but has the right to hold the items for an indefinite period through an arrangement that both parties to the agreement understand to be open-ended?

IG7. Yes. The entity has control over these items in its heritage collection. This is because it has the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?

IG8. Yes. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items. This is because it has the ability to use the items or direct other parties about their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Recognition

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

Should an entity capitalize subsequent expenditure on an unrecognized heritage asset when the expenditure meets IPSAS 45's recognition principle?

IG9. Yes. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset where that expenditure meets IPSAS 45 recognition principle in paragraph 6.

Capitalization Threshold for Costs

What factors should be considered when choosing a capitalization threshold?

IG10. IPSAS 45 paragraph 6 establishes the recognition principle for determining whether costs should be recognized as an asset, i.e., "capitalized" and states that the cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:

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- (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- (b) The cost or current value of the item can be measured reliably.

IG11. In practice, entities expense some costs that meet this recognition principle, because they fall below a “capitalization threshold,” established by management. Capitalization thresholds assume application of the materiality principle. As such, not all property, plant, and equipment with useful lives extending beyond a single reporting period will be capitalized. Many can be expensed without having a material impact on the information reported in the financial statements. Capitalization thresholds guide entities on whether costs should be capitalized and included in the statement of financial position or expensed and included in the statement of financial performance.

IG12. Factors to consider when setting capitalization thresholds include:

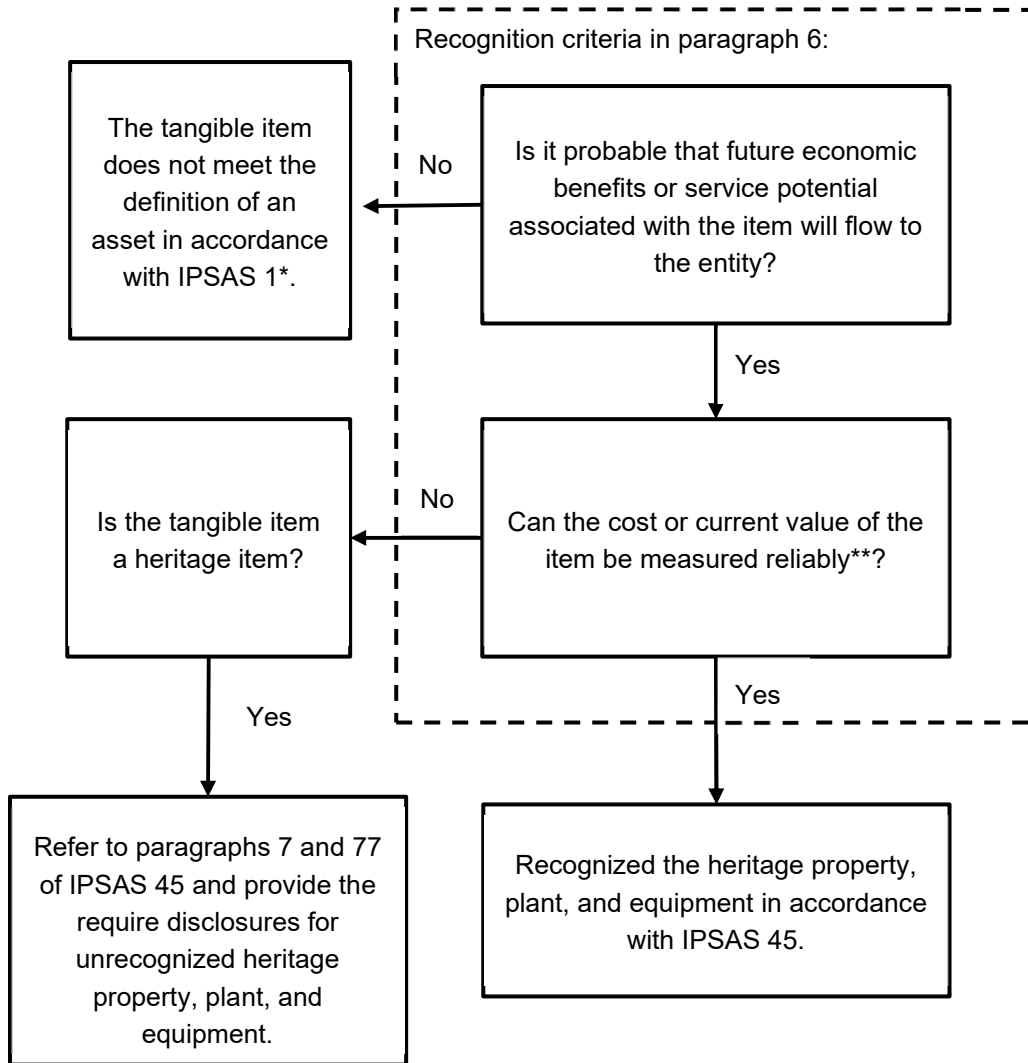
- (a) **Meeting the information needs of users:** Capitalization thresholds should result in reported information that meets the needs of external users of the financial statements. Capitalization thresholds should result in reported amounts for recognized assets that achieve the qualitative characteristics, including relevance and representational faithfulness.
- (b) **Materiality:** Capitalization thresholds should be such as to ensure that material asset values are captured. Appropriate capitalization thresholds guide entities to capitalize items that would materially impact the information about assets and expenses in the financial statements, and expense those items that would not materially impact that information.
- (c) **Cost-benefit:** When capitalization thresholds are set at appropriate levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting users’ needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff – without any benefit.

IG13. An entity should consider whether different classes of property, plant, and equipment need different capitalization thresholds.

IG14. Capitalization thresholds are often applied to individual items rather than to groups of similar items. However, the cumulative effect on a group of similar assets should be considered when relevant. This may be the case when a group of assets are acquired at the same time as part of a single project, for example assets acquired for an extensive building program.

Decision Tree – Heritage Item

This decision tree accompanies, but is not part of, IPSAS 45.



* **Assets** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

** **Measurement Considerations:**

- Cost as described in paragraphs 14-19.
- Current value:
 - Current operational value: The amount the entity would pay for the remaining service potential of an asset at the measurement date.
 - Fair value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.
- Reliable information: Information that 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.

Subsequent Measurement

Current Value Model

Measurement Bases

Can a class of property, plant, and equipment measured using the current value model mix current operational value and fair value measurement bases?

IG15. Yes. The measurement model, i.e., historical cost model or current value model, must be applied consistently to an entire class of property, plant, and equipment. As long as the measurement model is applied to an entire class of property, plant, and equipment, different measurement bases can be applied within the class. This may occur when a class of property, plant, and equipment is measured using the current value model. Individual items within this class of property, plant, and equipment may be measured at current operational value or fair value depending on the primary objective for which an entity holds an item, or part of an item, of property, plant, and equipment. (See paragraph 27).

Is a change in current value measurement basis, from current operational value to fair value, considered a change in accounting policy in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*?

IG16. No. The current value measurement basis may change because of a change in the objective for which an entity holds an item or part of an item of property, plant, and equipment.

IG17. For example, a public hospital has ten wards, nine of which have been used for fee-paying patients on a commercial basis, while the tenth ward was used for non-fee-paying patients. The entity decides to repurpose the tenth ward to fee-paying patients on a commercial basis, changing the objective for which the entity holds the tenth ward from operational capacity to financial capacity. As a result, the entity starts measuring the tenth ward at fair value.

Current Value Measurement of Heritage Assets

Do restrictions on the use of heritage assets affect an entity's ability to derive its current value either on initial recognition (if, for example, the asset is donated), or subsequently (when the entity subsequently revalues its heritage assets)?

IG18. No. Restrictions on the use of heritage assets do not affect an entity's ability to derive current values for them. However, restrictions will need to be taken into account when deriving a current value.

Where a heritage asset is viewed as irreplaceable, does this affect an entity's ability to derive its current value?

IG19. No. A view that a heritage asset is irreplaceable does not affect an entity's ability to derive a current value.

IG20. Many heritage assets are viewed as irreplaceable from a heritage perspective. From a financial reporting perspective, the ability to derive a current value involves the ability to ascertain values for equivalent assets. "Equivalent assets" do not have to be identical assets when deriving a current value. Where an entity needs to estimate a current value for a heritage asset, it will need to consider information available on current values, even when, from the perspective of its heritage nature, the asset is irreplaceable. Obtaining current values for heritage assets may be complex and difficult. It could involve judgment to reach an estimate that is derived from a range of possible values. These measurement challenges are a normal part of financial reporting, and not unique to the valuation

of heritage assets. The need for professional judgment, expert valuation advice, and/or the use of estimates to derive a current value is not a sufficient basis for concluding that a current value cannot be derived.

IG21. A consideration of the following factors will support an entity's assessment of whether it can derive a current value for a heritage asset:

- (a) Replacement of service potential: A current value is likely to be derivable, if the service potential of the heritage asset could be replaced, if necessary, through either:
 - i. Purchasing a similar asset; or,
 - ii. Reproducing or reconstructing the asset, with reproduction applying to either the whole asset or parts of the asset on either an "as needed" basis or through application of a replacement cycle for the asset.
- (b) By contrast, the heritage asset's current value may not be derivable if its service potential cannot be replaced through purchasing another, similar asset or through reproduction.

IG22. Significance of the heritage asset: A current value is likely to be derivable, if the heritage asset's service potential mainly relates to its ability to represent an era or type, such that another heritage asset of the same era or same type could be similarly representative.

By contrast, a heritage asset's current value may not be derivable if its service potential is independent of the heritage asset's ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.

Valuing Land Under or Over Infrastructure Assets

How should the land under or over infrastructure assets, such as land under roads or railways, be valued because the related infrastructure assets on top of the land are specialized and held for operational capacity?

IG23. IPSAS 45 is clear that:

- (a) Land should be separately accounted for. This requirement applies to all land, including land under or over infrastructure assets; and
- (b) Land under or over infrastructure assets accounted for under the current value model should be valued at current operational value or fair value. Because the infrastructure asset itself is a specialized asset, it will often be the case that the market approach will be challenging to apply, and that the asset will be more easily valued using the cost approach.

IG24. IPSAS 46, *Measurement* defines the cost approach as a measurement technique that reflects the amount that will be required currently to replace the service capacity of an asset (often referred to as the current replacement cost).

IG25. The replacement cost of the land is based on the current value of the land based on the existing site. For example, if the road runs through agricultural land, then the current value of the land under that section of the road will be agricultural and if the road runs through an industrial area, then the current value placed on the land under that section of the road will be industrial.

Frequency of Revaluation of Property, Plant, and Equipment

How often should property, plant, and equipment be revalued?

IG26. Paragraph 30 of IPSAS 45 specifies that the frequency of revaluations depends upon the changes in current value of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that choose the current value model to determine whether carrying amounts differ materially from the current value as at reporting date.

IG27. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's current value and revalues the asset to that amount.

IG28. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

- (a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;
- (b) Where a market exists for the assets of the entity, whether market values are different from their carrying amounts;
- (c) During the period, whether a price index relevant to the asset has undergone a material change;

Internal sources of information

- (d) Evidence is available of obsolescence or physical damage of an asset;
- (e) Significant changes, adverse or favorable, affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favorable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and
- (f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

IG29. The list in paragraph IG28 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current value as at the reporting date.

Depreciation

Heritage Assets' Useful Lives

What are the main factors to consider when assessing whether a heritage asset has an indefinite useful life?

IG30. Paragraph 52 states that there is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. For a heritage asset to have an indefinite useful life, an analysis of the relevant factors should show that it is reasonable for the entity to consider that there is no foreseeable limit to the period over which it is expected to provide service potential or be used operationally to generate net cash inflows for the entity. Paragraph 54 states that estimates of useful life, at the time the estimate is made, should reflect projections of the relevant factors that are realistic, rather than optimistic or pessimistic.

IG31. Paragraph AG28 states that a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset is an example of an asset that could have an indefinite useful life.

IG32. The main factors to consider when assessing whether a heritage asset has an indefinite useful life are:

- (a) **Period providing service potential:** The entity should expect that, to the best of its knowledge, the period over which the heritage asset will continue to provide service potential and/or future economic benefits will continue indefinitely. The assets' heritage value for future generations should be demonstrable, such that it is reasonable to expect that its heritage value will continue indefinitely.
- (b) **Usage:** The usage of the heritage asset should not result in physical wear and tear to the heritage asset.
- (c) **Preservation:** The entity should be able to describe the actions it has taken in the past and plans to continue to take to preserve the heritage asset, including adequate protection of heritage assets from the natural elements, where relevant. Preservation plans should include information on the likely availability of staff and financial resources to carry out the entity's preservation activities.

IG33. Entities apply judgment to estimate the useful life of an asset with reference to experience with similar assets. If circumstances change, the entity will need to consider whether the heritage asset still has an indefinite useful life. If the heritage asset is found to have a finite useful life, the entity will then treat it as a depreciable asset and account for it accordingly.

Identifying Parts of Infrastructure Assets that Should be Separately Depreciated

What should be considered when identifying parts of infrastructure asset networks or systems for financial reporting purposes?

IG34. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part that will have a material impact or effect on determining the annual depreciation expense.

IG35. Property, plant, and equipment including infrastructure assets do not require separate recognition beyond the level required for financial reporting purposes. IPSAS 45 requires:

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- (a) Items with a cost or value that is significant in relation to the total cost of the item shall be depreciated separately; and
- (b) Significant parts of property, plant, and equipment to be grouped with other significant parts that have a similar useful life and / or depreciation method when determining the depreciation charge.

IG36. One of the characteristics of infrastructure assets is that they are networks or systems comprised by a number of assets. Each of those assets or groups of similar assets may be a separate unit of account and may have parts.

IG37. Judgment is required in determining whether those parts of the assets or similar group of assets that make up the infrastructure asset networks or systems are significant in relation to the whole infrastructure asset network or system when determining whether or not to treat them separately. For financial reporting purposes, the following indicators can be helpful in identifying significant parts of an item of property, plant, and equipment:

- (a) Parts should be separately identifiable and measurable;
- (b) Parts should have significant value in relation to the asset; and
- (c) Parts should have different estimated useful lives.

IG38. The entity must consider the facts and circumstances of the transaction as a whole, and materiality to determine the significant parts for the purposes of calculating depreciation.

Use of Information in the Asset Management Plans for Financial Reporting

Can asset management plans provide information useful for accounting for property, plant, and equipment?

IG39. Yes. Information in asset management plans may be used to account for property, plant, and equipment when the items of property, plant, and equipment are maintained in accordance with a sufficiently detailed asset management plan that is subject to effective internal controls and has reliable and up to date information.

IG40. Information from asset management plans can be a useful source of input to:

- (a) Calculate depreciation. Paragraphs 47, 57, AG33 and AG35 indicate that depreciation reflects the consumption of the asset's future economic benefits or service potential by allocating the depreciable amount using a systematic basis over its useful life. Asset management plans may contain information on:
 - (i) The asset's expected useful life - Asset management plans may include information about the expected useful life based on its design/function/expected use; and
 - (ii) Expected patterns of asset consumption - Asset management plans may include information about the condition and maintenance history;
- (b) Determine the significant parts of property, plant, and equipment. Paragraphs 41 and AG24 stipulate that an entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part. Asset management plans may include information useful to determine or identify these significant parts of property, plant, and equipment which could in turn be useful to calculate depreciation, impairment, and/or facilitate derecognition of items of property, plant, and equipment;

- (c) Calculate the estimated costs to maintain, restore and refurbish assets; and
- (d) Determine whether there is an indication that property, plant, and equipment may be impaired. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

Impairment

Under-Maintenance of Assets

What is under-maintenance of assets?

IG41. Under-maintenance of assets occurs when the level of maintenance of an asset is insufficient to maintain the service potential or the useful life of the asset.

Could under-maintenance impact the measurement of items of property, plant, and equipment that require constant maintenance such as infrastructure assets?

IG42. Yes. Under-maintenance may affect the measurement of property, plant, and equipment. It may be an indicator for impairment and may also impact the residual value and useful life of the property, plant, and equipment.

IG43. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21 or IPSAS 26. The relevant guidance for assessing the residual value and useful life of property, plant, and equipment is available in paragraphs 48 and 49 of this Standard.

IG44. No liability should be recognized when property, plant, and equipment are not adequately maintained because IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* is clear there is no present obligation to recognize maintenance expenses that will be incurred in the future.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

Control of Land under or over Property, Plant, and Equipment

Example 1-Case A (see paragraphs IE1-IE3) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has legal ownership of the land and the right to direct access to the land and to restrict or deny access of others to the land.

- IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200-mile road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.
- IE2. The Provincial Government concludes that the National Government controls the land because the National Government:
- (a) Legally owns the land;
 - (b) Retains all the rights to the land, as it can cancel the binding arrangement at any point in time; and
 - (c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.
- IE3. While the Province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the National Government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this is insufficient to support its control of the land. Other indicators support control being retained by the National Government.

Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has unlimited and unrestricted use of the land.

- IE4. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.
- IE5. Even though the Provincial Government does not legally own the land, the Provincial Government concludes it controls the land because it:
- (a) Has the right to direct access to the land and to restrict or deny access of others to land because it has unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;
 - (b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and

- (c) Ensures the land is used to achieve the Provincial Government's service potential objective whereby the land will allow the Provincial Government to build a road that will transport vehicles and goods between the two cities.

Disclosures

Example 2 (see paragraph IE6) illustrates the general disclosure principles in paragraph 69-76.

IE6. The Department of the Interior is a public sector entity that controls a wide range of property, plant, and equipment, and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. Land

- (a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.
- (b) Restrictions on Titles:

Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at 25,000 currency units) of the national interest land and a further two thousand hectares (carried at 250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided; the Department recognizes the jurisdiction of the Court to hear these cases.

2. Buildings

- (a) Buildings consist of office buildings and industrial facilities at various locations.
- (b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.
- (c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.
- (d) The Department has entered into five contracts for the construction of new buildings; total contract costs are 250,000 currency units.

3. Machinery

- (a) Machinery is measured at cost less depreciation.
- (b) Depreciation is calculated on a straight-line basis over the useful life of the machine.
- (c) The machinery has various useful lives:
 - Tractors: 10 years
 - Washing Equipment: 4 years

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Cranes: 15 years

- (d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings – the contracted cost is 100,000 currency units.

4. Furniture and Fixtures

- (a) Furniture and fixtures are measured at cost less depreciation.
- (b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.
- (c) All items within this class have a useful life of five years.

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Reconciliations (in '000 of currency units)								
	Land		Buildings		Machinery		Furniture and Fixtures	
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
Reporting Period								
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	-	-	250	100	120	200	20	100
Disposals	-	-	150	40	60	80	20	-
Depreciation (As per Statement of Financial Performance)	-	-	160	180	145	135	50	50
Revaluations (net)	250	225	-30	-50	-	-	-	-
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200
Sum of Revaluation Surpluses (Paragraph 74(d))	750	500	250	250	-	-	-	-
Sum of Revaluation Deficits (Paragraph 74(e))	25	25	380	350	-	-	-	-
Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	-	-	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Comparison with IAS 16

IPSAS 45, *Property, Plant, and Equipment* is drawn primarily from IAS 16 (issued in December 2003, including amendments up to March 2018), *Property, Plant and Equipment*. The main differences between IPSAS 45 and IAS 16 are as follows:

- IPSAS 45 refers to both “economic benefits” and “service potential”, where appropriate, in the section on recognition of an item of property, plant, and equipment, while IAS 16 refers to “economic benefits”.
- IPSAS 45 at initial measurement requires that an item of property, plant, and equipment acquired through a non-exchange transaction be measured at its deemed cost. IAS 16 does not have such a requirement.
- The subsequent measurement models in IPSAS 45 are historical cost and current value models, while in IAS 16 the models are cost and revaluation.
- IPSAS 45 for subsequent measurement has two measurement bases in the current value model - current operational value and fair value. IAS 16 revaluation model has only one measurement basis - fair value.
- Under IPSAS 45 revaluation increases and decreases are offset within a class of assets basis, while in IAS 16 are offset on an asset basis.
- IPSAS 45 has disclosure requirements for unrecognized heritage assets, while IAS 16 does not have such a requirement.
- IPSAS 45 does not require the disclosure of the equivalent historical cost amounts, where an entity adopts the current value model and carries items of property, plant, and equipment at revalued amounts, while IAS 16 does.
- IPSAS 45 requires the disclosure of the sum of all revaluations, surpluses and deficits for individual items of property, plant, and equipment within that class. IAS 16 does not have such a disclosure requirement.

Comparison with GFS

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 45 and GFS will depend on the facts and circumstances of the items of property, plant, and equipment.
- Both IPSAS 45 and GFS require an entity to recognize property, plant, and equipment. However, IPSAS 45 uses accounting terminology whereas GFS uses economic terminology, which may have a similar meaning.
- On initial recognition, IPSAS 45 requires measurement at cost or deemed cost where appropriate. As GFS requires the use of market prices, the same valuation can result.
- On subsequent measurement, IPSAS 45 allows historical cost, current operational value, or fair value measurement bases. In GFS, assets should be measured at market values, so the same valuation can result if the market approach is used as the measurement technique.
- In IPSAS 45 current value model increases or decreases in the carrying amount are recognized in net assets/equity or surplus or deficit, as appropriate. In GFS, changes in market value are recognized as other economic flows.
- Both IPSAS 45 and GFS require capitalization of transaction costs. Transaction costs in IPSAS 45 and GFS are presented together with the items of property, plant, and equipment, though ownership transfer costs of land in GFS are presented in land improvements.
- In IPSAS 45, depreciation can be based on historical cost or on current value, whereas consumption of fixed capital in GFS is always based on current value.
- IPSAS 45 includes disclosure requirements that are not present in GFS.

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Published by:



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**Final Pronouncement
May 2023**

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International Public Sector Accounting Standard[®]

IPSAS 46, *Measurement*

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IPSAS 46, MEASUREMENT

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Objective

1. **The objective of this Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The Standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.**

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply IPSAS 46, *Measurement* in measuring assets and liabilities.
3. Except as specified in paragraph 4, this Standard applies when another IPSAS requires or permits:
 - (a) One or more of the measurement bases defined in this Standard; and
 - (b) Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal).
4. The measurement requirements of this Standard do not apply to the following:
 - (a) Leasing transactions accounted for in accordance with IPSAS 43, *Leases*;¹
 - (b) Transactions accounted for in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and
 - (c) Measurements that have some similarities to the measurement bases in this Standard but are not those measurement bases, such as net realizable value in IPSAS 12, *Inventories* or value in use in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets* (but this Standard is applied in measuring fair value as required in IPSAS 21 and 26).
5. The measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in the individual IPSAS.

Definitions

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

Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Cost approach is a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Current operational value is the amount the entity would pay for the remaining service potential of an asset at the measurement date.

¹ If this Standard is applied prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

Deemed cost is an amount used as a surrogate for transaction price at the measurement date.

Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

Exit price is the price received to sell an asset or paid to transfer a liability.

Expected cash flow is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Highest and best use is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.

Historical cost is the consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.

Income approach is a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.

Inputs are the assumptions used when pricing the asset or liability, including assumptions about risk, such as the following:

- (a) The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and
- (b) The risk inherent in the inputs to the measurement technique.

Inputs may be observable or unobservable.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Market approach is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- (a) They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Party Disclosures*, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
- (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.

- (c) They are able to enter into a transaction for the asset or liability.
- (d) They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.

Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Non-performance risk is the risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).

Principal market is the market with the greatest volume and level of activity for the asset or liability.

Risk premium is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.

Transaction costs are incremental costs that are directly attributable to the acquisition, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.

Transaction price is the consideration given to acquire, construct or develop an asset or received to assume a liability.

Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.

Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

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

Measurement

Initial Measurement

7. **On the date an item qualifies for recognition, it shall be initially measured at its transaction price, plus transaction costs for assets or minus transaction costs for liabilities, unless:**
- (a) **That transaction price, plus or minus transaction costs, does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or**
 - (b) **Otherwise required or permitted by another IPSAS.**

When applying accrual basis IPSAS for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS should be carried out in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*.

Transactions in an Orderly Market

8. When an asset is acquired, constructed, or developed, or a liability is assumed in an orderly market, the transaction price, plus or minus transaction costs, reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.
9. Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider factors specific to the transaction and to the asset or liability.

Transactions not Undertaken in an Orderly Market

10. When an asset is acquired, constructed, or developed, or a liability is assumed, as a result of an event that is not a transaction in an orderly market:
- (a) It may not be possible to observe a transaction price;
 - (b) The transaction price may not faithfully present relevant information about the asset or liability; or
 - (c) The transaction price may be zero.

In such cases, deemed cost is used to measure the initial value of the asset or liability. A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement. Current value measurement bases are described in paragraphs 23–31.

11. Any difference between deemed cost and any consideration given or received would be recognized as revenue or expenses, unless it is a contribution from owners or a relevant IPSAS requires otherwise.
12. Circumstances where a transaction price may not be observable or may not faithfully present relevant information include:
- (a) Transaction prices that have a concessionary element;
 - (b) Assets transferred to the entity free of charge by a government or donated to the entity by another party;
 - (c) Liabilities imposed by legislation or regulation;

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- (d) Liabilities to pay compensation or a penalty arising from an act of wrongdoing or breach of contract;
 - (e) Transaction prices that are affected by relationships between the parties, or by financial distress or other duress of one of the parties; and
 - (f) Transaction prices that are not available on the date of adoption of IPSAS as defined in IPSAS 33.
13. When assets are acquired, constructed, or developed, or liabilities assumed, as a result of an event that is not a transaction in an orderly market, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognize other assets, other liabilities, contributions from owners or distributions to owners to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.

Transaction Costs at Initial Measurement

14. Transaction costs related to acquiring, constructing, or developing, an asset or incurring a liability are a feature of the transaction in which the asset was acquired, constructed, or developed, or the liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired, constructed, or developed the asset or assumed the liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or in settling or transferring a liability are a feature of a possible future transaction. Unless explicitly required, possible transaction costs are not included because initial measurement reflects the costs of acquiring the asset or incurring the liability.

Transaction Occurring in Stages

15. The acquisition of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the entity's own use. Any expenditures incurred in bringing the asset to the state where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.

Deferred Payments

16. Where the time value of money is material—for example, where the length of time before settlement falls due is significant—the amount of the future cash flows is discounted so that, at the time an asset or liability is first recognized, it represents the value of the amount received or paid. For example, the difference between the amount of the future cash flows and the present value of the asset or liability is amortized over the life of the asset or liability, so that the asset or liability is stated at the amount due to be received, or the required payment when it falls due.

Subsequent Measurement

17. After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability on an historical cost basis or a current value basis. This accounting policy choice is reflected through the selection of the measurement model.

Measurement Models

18. Assets and liabilities recognized in financial statements are quantified in historical terms or current terms. This requires the selection of an historical cost or current value measurement model. In

selecting a measurement model, an entity shall consider the characteristics of the item, the measurement objective and the monetary information being presented.

Measurement Bases

19. A measurement basis provides information that achieves the qualitative characteristics, as described in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) and ensures the constraints on information in GPFs are considered under the measurement model selected. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related revenue and expenses. The selection of a measurement basis depends on the measurement model applied (see diagram after paragraph 36).
20. **When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below, an entity shall apply the measurement basis in accordance with the requirements and related appendices in this Standard:**
 - (a) **Historical cost basis (Appendix A: Historical cost);**
 - (b) **Current operational value basis (Appendix B: Current operational value);**
 - (c) **Cost of fulfillment basis (Appendix C: Cost of fulfillment); and**
 - (d) **Fair value basis (Appendix D: Fair value).**

Historical Cost Basis

21. The historical cost basis is an entry, entity-specific value. The historical cost basis provides monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.
22. Following initial measurement, the value of an asset or liability is not remeasured to reflect current conditions or increases in the value of the asset or decreases in the value of the liability.

Current Operational Value Basis

23. Current operational value provides monetary information about assets, and related amortization, depreciation, etc., using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.
24. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the entity's asset in its existing use and condition.
25. Current operational value differs from fair value because it:
 - (a) Is explicitly an entry price and includes all the costs that would necessarily be paid for the remaining service potential of an asset;
 - (b) Reflects the value of an asset in its existing use, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and

- (c) Is entity-specific and therefore reflects the economic position of the entity.

Cost of Fulfillment Basis

26. Cost of fulfillment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfillment is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfills a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfill the liability.
27. Cost of fulfillment cannot be observed directly and is determined using cash-flow-based measurement techniques. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would use and those an entity itself uses.
28. The cost of fulfillment reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.

Fair Value Basis

29. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The fair value of an asset or liability is not dependent, even in part, on the transaction or event that gave rise to the asset or liability.
30. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.
31. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly.

Characteristics of the Asset or Liability

32. A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis, an entity shall take into account the characteristics of the asset or liability at the measurement date (for example, for fair value measurement the characteristics are considered if market participants would take those characteristics into account when pricing the asset or liability). Such characteristics include, for example, the following:
- (a) The condition, use and location of the asset; and
 - (b) Restrictions, if any, on the sale or use of the asset.
33. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity, for entity-specific measurements, and by market participants, for market-based measurements.
34. The asset or liability measured might be either of the following:
- (a) A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or

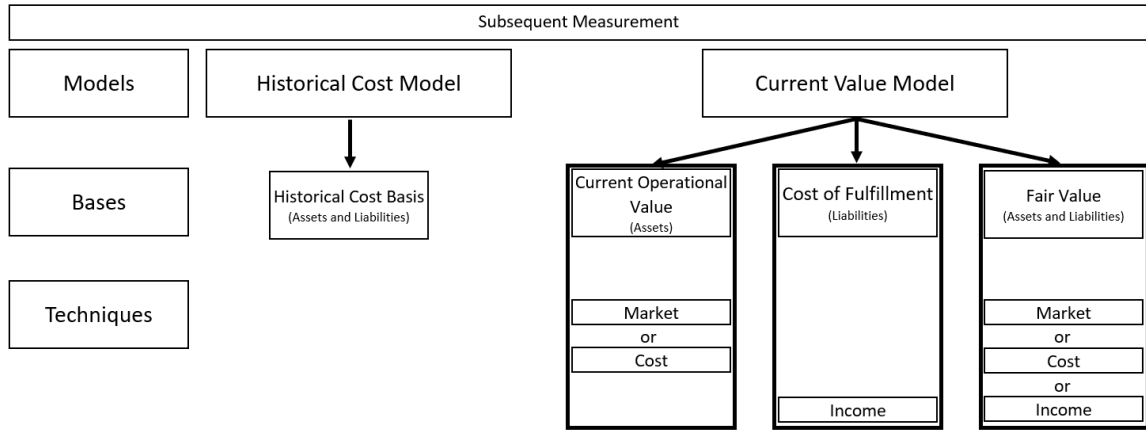
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- (b) A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).
35. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes, depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this Standard, except where specified differently in this Standard.

Measurement Techniques

36. **An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to estimate the measurement basis or determine deemed cost.**

The following diagram sets out the subsequent measurement framework based on the *Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*. This diagram illustrates the three levels of measurement and the relationships between them.



37. A measurement technique is applied to estimate the amount at which an asset or liability is recognized under the selected measurement basis or in determining deemed cost (see paragraph 10). Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 29–31.
38. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 42–45. An entity shall use measurement techniques consistent with one or more of those approaches to measure the asset or liability under the selected measurement basis.
39. In some cases, a single measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement techniques are used to measure the asset or liability under the selected measurement basis, the results shall be evaluated considering the reasonableness of the range of values indicated by those results.
40. Measurement techniques shall be applied consistently. However, a change in a measurement technique or its application (e.g., a change in its weighting when multiple measurement techniques are used or a change in an adjustment applied to a measurement technique) is appropriate if the

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change results in a measurement that is equally or more representative of the measurement basis in the circumstances. That might be the case if, for example, any of the following events take place:

- (a) New markets develop;
 - (b) New information becomes available;
 - (c) Information previously used is no longer available;
 - (d) Measurement techniques improve; or
 - (e) Market conditions change.
41. Revisions resulting from a change in the measurement technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurement technique or its application.

Market Approach

42. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Cost Approach

43. The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.
44. The cost of a substitute asset of comparable utility is calculated as the cost of a modern equivalent asset—that is, an asset providing an equivalent service as the existing asset.

Income Approach

45. The income approach converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis reflects current expectations about those future amounts.

Depreciation, Impairment and Other Adjustments

46. Depreciation and impairment are applicable to measurement bases in the historical cost model and the current value model. Neither depreciation nor impairment are measurement bases or measurement techniques in their own right. They are methods to reflect the consumption of the asset or loss of the future economic benefits or service potential of the asset.
47. Under both the historical cost model and the current value model, an asset is updated over time to depict:
- (a) The consumption of part or all of the resource that constitutes the asset (depreciation or amortization);
 - (b) Payments received that extinguish part or all of the asset;

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- (c) The effect of events that cause part or all of the asset to no longer be recoverable (impairment); and
 - (d) Accrual of interest to reflect any financing component of the asset.
48. Under both the historical cost model and the current value model, a liability is updated over time to depict:
- (a) Fulfillment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods or services;
 - (b) The effect of events that increase the value of the obligation to transfer the resources needed to fulfill the liability to such an extent that the liability becomes onerous. A liability is onerous if the carrying amount is no longer sufficient to depict the obligation to fulfill the liability; and
 - (c) Accrual of interest to reflect any financing component of the liability.

Transaction Costs in Subsequent Measurement

49. **Transaction costs are incremental costs that would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset or incurred, transferred, or settled the liability.**
50. Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.
51. Costs attributable to the acquisition, construction, or development, of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer (e.g., borrowing costs), are excluded from the definition of transaction costs.
52. Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether an entity is recognizing an asset or liability using an entry-based measurement basis or an exit-based measurement basis impacts whether those transaction costs are included in, or excluded from, the item's measurement.
53. Transaction costs can arise when an asset is acquired, constructed, or developed or a liability is assumed, when an asset is disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring, constructing, or developing an asset or assuming a liability are a feature of the transaction in which the asset was acquired, constructed or developed, or the liability was assumed, such transaction costs incurred in entering into a transaction are included in entry-based measurement bases. Transaction costs that would be incurred in disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction costs that would be incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is entity-specific.

Disclosure

54. An entity shall disclose information that helps users of its financial statements assess the measurement basis, the measurement techniques and inputs used to develop those measurements.

55. To meet the objectives in paragraph 54, an entity shall apply the measurement disclosure requirements in the relevant IPSAS to which the measurement of the asset or liability applies.

Effective Date and Transition

Effective Date

56. **An entity shall apply this Standard for annual periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies this Standard earlier, it must disclose that fact.**
57. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33 for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of accrual basis IPSAS.

Transition

58. This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Historical Cost

This Appendix is an integral part of IPSAS 46.

Measurement

- A1. The objective of the historical cost measurement basis is to provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction (or deemed cost, where applicable) or other event that gave rise to them.
- A2. The historical cost basis is:
- (a) The consideration given to acquire, construct and/or develop an asset plus transaction costs;
 - (b) The consideration received to assume a liability minus transaction costs; or
 - (c) The deemed cost of the asset or liability or other event that gave rise to it.

The consideration is the cash or cash equivalents or the value of the other consideration given or received at the time, or period over which, the asset is acquired, constructed, or developed or the liability is assumed.

Initial Measurement

- A3. Initial measurement is determined in accordance with paragraphs 7–16 of this Standard.

Subsequent Measurement

- A4. After initial measurement, the gross carrying amount of an asset or liability measured using the historical cost basis remains unaffected by changes in the underlying current market conditions, unless those changes trigger an impairment. For example, the amount at which an item of property, plant, and equipment is recorded is not updated to reflect an increase in the current market price of the item after it has been acquired, constructed, or developed.
- A5. However, as with current value measurements, the carrying amount of an asset or liability measured using the historical cost basis is updated to reflect changes to the item as noted in paragraphs 47 and 48.

Amortized Cost

- A6. The historical cost basis is applied to financial instruments by measuring the instruments at amortized cost. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial measurement. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.

Current Operational Value

This Appendix is an integral part of IPSAS 46.

Measurement

- B1. The objective of a current operational value measurement is to estimate the amount an entity would pay for a non-financial asset at the measurement date. A current operational value measurement requires an entity to determine all of the following:
- (a) The amount the entity would pay. This includes assessing the price that would be paid in an active market, or the cost the entity would incur, for the asset in the least costly manner.
 - (b) The remaining service potential of the asset. This considers the current condition of the asset.
 - (c) The asset (consistent with its unit of account). This includes assessing the asset's existing use and location.
 - (d) The measurement technique(s) appropriate for estimating (a) to (c) considering the availability of data that faithfully represents the assumptions that are specific to the entity.
- B2. Current operational value provides an entity specific measurement of an asset held for its operational capacity in its existing use, location, and current condition.
- (a) In the statement of financial position, current operational value reflects the amount an entity would pay at the measurement date for the remaining service potential of its existing asset.
 - (b) In the statement of financial performance, current operational value reflects the consumption of the asset in providing the service based on conditions at the measurement date. This differs from the historical cost basis which reflects consumption of the asset based on the prices when the asset was acquired, constructed, or developed, and initially recognized.

The Amount an Entity would Pay

- B3. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date regardless of whether that price is directly observable or not.
- B4. The amount an entity would pay is:
- (a) The price to acquire the identical, or a similar, asset in an active market; or
 - (b) The costs that would be incurred to develop or produce the identical, or a similar, asset.
- B5. When an active market exists for the identical, or a similar, asset, current operational value uses this price as the amount an entity would pay for the asset.
- B6. When no active market exists, a reliable acquisition price for an identical, or similar, asset will generally not exist. Current operational value will then need to be estimated based on the costs to develop or produce the asset using available price information. For example, many military assets, such as an aircraft, generally do not have active markets. Such assets often cannot be acquired as a finished product that is identical, or similar, to the aircraft under valuation. Measuring the cost of each part of the asset, such as the fuselage, engine, electronics etc., and the cost to assemble

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them into the same, or similar, aircraft, adjusted for the age, functionality, and condition, will generally be necessary to estimate the aircraft's current operational value.

Entry Price

- B7. The current operational value of an asset represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.

Entity-Specific Value

- B8. An entity shall measure the current operational value of an asset using assumptions from the entity's perspective, based on the way the existing asset is used. Those assumptions shall reflect the economic, legal and other constraints that affect the possible uses of the asset. For example, where an entity is using an asset for a particular purpose, the entity will consider the amount it would pay for that type of asset based on its existing use and not consider the value for alternative uses for that asset.

The Least Costly Manner

- B9. A current operational value measure assumes the amount an entity would pay for the remaining service potential of an asset at the measurement date is the least costly amount for the asset.
- B10. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly amount, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.
- B11. Current operational value does not reflect the costs that might be incurred if an urgent necessity to replace the remaining service potential of an asset arose as a result of some unforeseeable event.

Observable Inputs

- B12. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a current operational value in both cases is the same—to estimate the amount the entity would pay for the remaining service potential of the asset based on conditions at the measurement date (i.e., an *entry price* at the measurement date from the perspective of the entity that holds the asset).
- B13. When a price for an identical, or similar, asset is not observable, an entity measures current operational value using another valuation technique that uses observable inputs, where feasible, such as when external resources are available and can be used.
- B14. Because current operational value is an entity-specific value, it is measured using the assumptions from the entity's perspective. These entity-specific assumptions may result from information that is not available publicly. For example, the cost to construct an asset may include labor costs of employees of the entity, as opposed to contract workers. As a result, an entity's intention in how costs are incurred to construct an asset is relevant when measuring current operational value.
- B15. In practice, there may be little difference between the assumptions that market participants would use and those that an entity itself uses. For example, where the amount that would be paid for a non-specialized asset is generally the same regardless of its existing use, the assumptions a market participant would use would be consistent with those in an entity-specific valuation.

Remaining Service Potential

- B16. Current operational value is the amount the entity would pay for the remaining service potential of an asset. The remaining service potential of the asset takes into account the current age, functionality, and condition of the asset held by the entity.
- B17. In order to reflect the current age, functionality, and condition, the following factors are considered:
- (a) Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use.
 - (b) Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent.
 - (c) Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.

The Asset

- B18. Current operational value is the amount the entity would pay for the remaining service potential of a specific asset. The following key aspects affect the measurement of an asset's current operational value:
- (a) The existing asset;
 - (b) The existing use of the asset; and
 - (c) The existing location of the asset.

Existing Asset

- B19. Current operational value assumes the entity will continue to deliver goods and/or services by using the identical, or a similar, asset.
- B20. The identical, or a similar, asset delivers goods and/or services in the same manner as the asset being measured. For example, a power authority that delivers electricity measures the amount it would pay for the remaining service potential of its generation facilities based on the nature of its existing facilities. If the generation facilities are solar farms, the amount an entity would pay for the remaining service potential of the asset is based on a solar farm as opposed to an alternative asset, such as a wind farm, that could also deliver the service.

Existing Use of the Asset

- B21. Current operational value is the amount the entity would pay for the remaining service potential of an asset based on its existing use. 'Existing use' is the way an asset, or group of assets, is used and generally reflects the policy objectives of the entity operating the asset. For example, a ministry of health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to deliver health care services rather than for commercial purposes.
- B22. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, the existing use of a building operated as a school, is for the delivery of educational services. Alternative uses, such as the operation of the building as an office block held for rental at market rates are not considered. The existing use may be, but is not necessarily, the highest and best use.

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- B23. Any unused portion of the asset in its existing use is evaluated to determine whether the unused portion is held for a specific operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, and/or functional limitations. Unused portions based on the existing use of the asset, which are held for a specific operational purpose associated with the asset and would be replaced, are included in measuring the asset's current operational value.
- B24. Where an unused portion of an asset has no specific operational purpose associated with the asset, an entity determines whether it has an alternative use. Where an alternative use is currently available, the portion of the asset is valued as a separate asset using an appropriate measurement basis. Where the unused portion of an asset has no alternative use, it is included in the current operational value, but has no value.

Existing Location of the Asset

- B25. The asset's current operational value assumes that the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated or used.
- B26. The current operational value of an asset that cannot be physically moved reflects the value of the physically immovable asset in its existing location. For example, a hospital operating in a city center that could be situated in the suburbs, due to the migration of the population, is measured based on the amount an entity would pay for the hospital at its existing location (e.g., the amount required for a building includes construction costs, permits, regulations, etc. based on costs that would be paid at the existing location).
- B27. The current operational value of a physically movable asset reflects the location from which the entity uses the asset and/or the market the entity has access to. For example, the furniture and equipment in a hospital operating in a city center is measured based on the amount an entity would pay for furniture and equipment for the hospital at its current city center location.

Measurement Techniques

- B28. The objective of using a measurement technique is to estimate the amount an entity would pay for the remaining service potential of an asset based on conditions at the measurement date. The widely used measurement techniques are the market approach and the cost approach. The main aspects of those approaches are summarized in paragraphs B32–B36. An entity shall use measurement techniques consistent with one or other of those approaches to measure the current operational value.
- B29. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, using observable inputs, where feasible.
- B30. In some cases, current operational value cannot be determined directly by observing prices in an active market and must be determined by other means. For example, if prices are available only for new assets, the current operational value of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age, functionality, and condition of the asset held by the entity.
- B31. If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those

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results. A current operational value measurement is the point within that range that is the most representative value of the remaining service potential of the asset in the circumstances.

Market Approach

- B32. Applying the market approach to measure the current operational value of an asset requires the existence of an active market with transactions involving identical or similar assets.
- B33. The market approach uses an asset price from an orderly transaction in the principal market (or the market that minimizes the amount that would be paid to acquire the asset) for the entity at the measurement date.
- B34. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach an asset with an identical or similar remaining useful life, service potential, etc. must be identified.

Cost Approach

- B35. The current operational value of an asset should be established using the cost approach when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will need to be applied.
- B36. When the existence of market transactions involving identical or similar assets does not exist, current operational value is the cost to develop or produce the identical, or a similar, asset.

Modern Equivalent Asset

- B37. When no cost information is available for a similar or identical asset, or when the existing asset would not be replaced with an identical asset, an entity may estimate current operational value by calculating the cost of a modern equivalent asset and then making deductions for obsolescence and optimization. It may be necessary, therefore, to estimate the current operational value of an asset by drawing on the current price of a modern equivalent asset that provides an equivalent service as the existing asset in its existing use, adjusted to reflect the current age, condition and functionality of the asset held by the entity.
- B38. Applying the cost approach means current operational value cannot be determined by observing prices in an active market. However, measuring the current operational value using the cost approach continues to require the use of relevant observable inputs for parts of the asset, where the entity would acquire those parts from the market.

Cost of Fulfillment

This Appendix is an integral part of IPSAS 46.

Measurement

- C1. The objective of the cost of fulfillment measurement is to estimate the value of a liability assuming the entity will fulfill the liability in the least costly manner. A cost of fulfillment measurement requires an entity to determine all the following:
- (a) The particular liability that is the subject of the measurement (consistently with its unit of account).
 - (b) The manner in which the liability will be settled.

The Least Costly Manner

- C2. The cost of fulfillment assumes that the liability is settled by the entity in the least costly manner.
- C3. The cost of fulfillment represents the amount the entity is obligated to incur to settle the liability. This liability represents the minimum amount an entity will incur assuming the entity completely satisfies the liability. For example, an entity may have a liability to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfill the minimum liability of restoring the land to its original condition and therefore are not representative of the cost to fulfill the liability. In cases where an entity intends to fulfill the liability beyond its commitment, guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, should be applied when accounting for an amount in excess of the cost to fulfill.
- C4. The entity must have the ability to access the fulfillment method that results in the liability being settled in the least costly manner at the expected fulfillment date. Because different entities (and operations within those entities) with different activities may have access to a variety of fulfillment methods, the least costly manner for the same liability might be different for different entities (and operations within those entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities and circumstances.
- C5. An entity need not undertake an exhaustive search of all fulfillment methods to identify the least costly manner of fulfillment, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of fulfillment is presumed to be the manner in which the entity has currently selected to release itself from the liability. For example, if an entity elects to fulfill its decommissioning liability using its own employees, it is presumed this is the least costly manner of fulfillment, regardless of the entity's ability to contract the decommissioning to third parties.
- C6. Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the liability and the entity has the ability to access the fulfillment method (see paragraph C4).

- C7. Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any margin above costs, because any such margin above costs does not represent a use of the entity's resources. Where the cost of fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.

Entity-Specific Value

- C8. The cost of fulfillment is an entity-specific value. An entity shall measure the cost of fulfillment of a liability using the assumptions from the entity's perspective, assuming the entity acts in accordance with its objectives.
- C9. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following:
- (a) The liability;
 - (b) The entity's expectations about the amount and timing of future outflows of resources; and
 - (c) The time value of money.

Whether a risk premium is included in the calculation will depend on guidance in the relevant IPSAS.²

- C10. When estimating assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.

The Cost that the Entity Will Incur

- C11. The cost of fulfillment estimates the cost assuming the entity settles the liability.
- C12. A cost of fulfillment measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the entity expects to incur to satisfy the liability. Those future outflows of resources include the amounts:
- (a) To be transferred to the liability counterparty; and
 - (b) The entity expects to be obliged to transfer to other parties to settle the liability.
- C13. The price used to measure the cost of fulfilling the liability shall not be adjusted for transaction costs incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the entity expects to incur. In contrast, transaction costs that are expected to be incurred in settling the liability, i.e., exit-based, are a future outflow of resources that is relevant in measuring the cost to fulfill the liability and are included in measuring the cost of fulfillment.
- C14. Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.
- C15. Where fulfillment of the liability will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date using the income

² When including a risk premium in measuring cost of fulfillment, an entity should perform the measurement from the perspective of the entity holding the liability rather than from the perspective of the market participant as noted in paragraph D8.

approach. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the liability to be settled within one year.

Settling the Liability

- C16. The cost of fulfillment is the cost that the entity expects to incur to settle its liability in the normal course of operations.
- C17. In estimating the cost to settle its liability in the normal course of operations, the entity assumes the liability will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.
- C18. In estimating the cost of fulfillment the entity takes into account all readily available information at the measurement date under current market conditions in estimating the obligation to settle the liability at the expected fulfillment date.
- C19. The cost of fulfillment shall not include the non-performance risk of the entity to settle its liability. A cost of fulfillment measurement is a measure of the value of a liability assuming the entity will fulfill its obligations. As non-performance risk takes into account the effect on the value of a liability of the entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of fulfillment measurement assumes the liability will be fulfilled in the normal course of operations.

Measurement Technique

- C20. The cost of fulfillment, cannot be observed directly in an active market. It is determined using the income approach measurement technique.
- C21. An entity shall use the income approach. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.
- C22. The objective of using the income approach is to estimate the cost that the entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions. The main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs C23–C48.

Income Approach

- C23. Applying the income approach to estimate the cost of fulfillment shall take into account the attributes of the cost of fulfillment measurement basis. This includes:
 - (a) Estimates of future cash flows.
 - (b) Possible variations in the estimated amount or timing of future cash flows for liability being measured, caused by the uncertainty inherent in the cash flows.
 - (c) The time value of money.
 - (d) Other factors that impact the value of the liability.
- C24. Paragraphs C25–C48 describe the use of present value techniques to measure the cost of fulfillment. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the cost of fulfillment to the techniques

discussed. The present value technique used to measure the cost of fulfillment will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.

Future Outflows of Resources

- C25. The estimates of outflows of resources used to measure the cost of fulfillment shall include all inflows of resources and outflows of resources that relate directly to the fulfillment of the liability. Those estimates shall:
- (a) Be explicit (i.e., the entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources);
 - (b) Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs C30–C34);
 - (c) Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the entity fulfills the liability (see paragraph C35); and
 - (d) Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs C36–C40).

Uncertainty and the Expected Value Approach

- C26. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources are not conditional upon the occurrence of any specified event (unlike the outflows of resources used in the discount rate adjustment technique).
- C27. In determining the expected outflows of resources an entity must:
- (a) Identify each possible outcome;
 - (b) Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome; and
 - (c) Make an unbiased estimate of the probability of each outcome.
- C28. Paragraph C27 requires the estimate of expected values to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.

- C29. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph C2 assumes that the liability is settled by the entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.

Market Variables and Non-Market Variables (Paragraph C25(b))

- C30. This Appendix identifies two types of variables:
- (a) Market variables—variables that can be observed in, or derived directly from, markets (e.g., interest rates); and
 - (b) Non-market variables—all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).

Market Variables

- C31. Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall not substitute its own estimates for observed market prices except as described in paragraph D59. In accordance with Appendix D, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.

Non-Market Variables

- C32. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.
- C33. Non-market external data (e.g., national statistics for decommissioning of a nuclear power facility) may have more or less relevance than internal data (e.g., internally developed statistics for decommissioning of a nuclear power facility), depending on the circumstances.
- C34. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

Estimating Probabilities of Future Payments (Paragraph C25(c))

- C35. An entity estimates the probabilities associated with future payments on the basis of:
- (a) Information about the known or estimated characteristics of the liability; and
 - (b) Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted if, for example:
 - (i) The characteristics of the liability differ (or will differ, for example because of adverse selection) from those of the population that has been used as a basis for the historical data;
 - (ii) There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or
 - (iii) There have been changes in the entity's practices or procedures that may affect the relevance of historical data to the liability.

Under Current Estimates (Paragraph C25(d))

- C36. In estimating the probability of each outflow of resources scenario, an entity shall use all of the available current information at the measurement date. An entity shall review the estimates of the probabilities that it made at the end of the previous measurement date and update them for any changes. In doing so, an entity shall consider whether:
- (a) The updated estimates faithfully represent the conditions at the end of the measurement date; and
 - (b) The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.
- C37. The probability assigned to each scenario shall reflect the conditions at the measurement date. Consequently, in accordance with IPSAS 14, *Events After the Reporting Date*, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommissioning. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with IPSAS 14, that a non-adjusting event occurred after the end of the reporting period).

Future Events (Paragraph C25(d))

- C38. Estimates of non-market variables shall consider not just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods thereby decreasing decommissioning costs. The determination of the outflow of resources reflects the probabilities that would be assigned to each possible trend scenario in the light of all the available evidence.
- C39. Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.
- C40. When estimating the outflow of resources associated with fulfilling the liability, an entity shall take into account future events that might affect the outflow of resources. The entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, an entity shall not take into account future events, such as a change

in legislation, that would change or discharge the present obligation or create new obligations under the existing liability.

Time Value of Money

- C41. Entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.
- C42. An entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall:
- (a) Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity.
 - (b) Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.
- C43. When using a risk-free rate, the logical sources of reference rates are high quality bonds, for example, bonds issued by a financially sound government. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.
- C44. Although rates on high quality government bonds will not need to be adjusted for default risk in determining the risk-free discount rate, they may need to be adjusted for liquidity risk. Some government bonds are traded in deep and liquid markets enabling bond holders to readily sell them at minimal cost. The rate payable on such bonds is lower than the rate payable on an equivalent illiquid bond. Accordingly, it might be necessary to include a 'premium for illiquidity' in the observed rate for government bonds that are not traded in deep and liquid markets.

Inputs to the Income Approach

General Principles

- C45. The income approach used in a cost of fulfillment measurement reflects entity-specific assumptions rather than assumptions used by market participants.
- C46. The cost of fulfillment measurement is an entity-specific valuation. When an income approach is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph C10). The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the entity, from the entity's perspective. For example, when measuring the cost to fulfill a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the entity.
- C47. In some cases, the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However,

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a cost of fulfillment measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the IPSAS that requires or permits the cost of fulfillment measurement.

- C48. When a liability will be settled at a future date, the assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on fulfillment and the associated discount rate are both based on information available at the measurement date.

Fair Value

This Appendix is an integral part of IPSAS 46.

Measurement

- D1. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:
- (a) The particular asset or liability that is the subject of the measurement (consistently with its unit of account);
 - (b) For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);
 - (c) The principal (or most advantageous) market for the asset or liability; and
 - (d) The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

The Transaction

- D2. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.
- D3. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
- (a) In the principal market for the asset or liability; or
 - (b) In the absence of a principal market, in the most advantageous market for the asset or liability.
- D4. An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.
- D5. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement technique), even if the price in a different market is potentially more advantageous at the measurement date.
- D6. The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset

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or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.

- D7. Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.
- D8. Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

Market Participants

- D9. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
- D10. In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:
 - (a) The asset or liability;
 - (b) The principal (or most advantageous) market for the asset or liability; and
 - (c) Market participants with whom the entity would enter into a transaction in that market.

The Price

- D11. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurement technique.
- D12. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other IPSAS. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.
- D13. Transaction costs do not include transport costs. If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

Application to non-financial assets

Highest and Best Use for Non-Financial Assets

- D14. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
- D15. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:
- (a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property).
 - (b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property).
 - (c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate revenue or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.
- D16. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.
- D17. To protect the public interest, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset, such as a drug patent, that the entity plans to use to manufacture vaccines for its citizens. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

Valuation Premise for Non-Financial Assets

- D18. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:
- (a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation).
 - (i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants.

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- (ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.
 - (iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.
 - (b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.
- D19. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IPSAS (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.
- D20. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For example:
- (a) The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).
 - (b) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).
 - (c) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods.

- (d) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the measurement technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurement technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.
- (e) In more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).

Fair Value at Initial Recognition

- D21. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.
- D22. In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).
- D23. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph D25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.
- D24. If another IPSAS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.
- D25. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:
 - (a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
 - (b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
 - (c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that are

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measured separately in accordance with another IPSAS, or the transaction price includes transaction costs.

- (d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.
- (e) The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).

Measurement Techniques

- D26. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.
- D27. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
- D28. The objective of using a measurement technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs D31–D36. An entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.
- D29. If multiple measurement techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.
- D30. If the transaction price is fair value at initial recognition and a measurement technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the measurement technique shall be calibrated so that at initial recognition the result of the measurement technique equals the transaction price. Calibration ensures that the measurement technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the measurement technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurement technique). After initial recognition, when measuring fair value using a measurement technique or techniques that use unobservable inputs, an entity shall ensure that those measurement techniques reflect observable market data (e.g., the price for a similar asset or liability) at the measurement date.

Market Approach

- D31. Measurement techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgment, considering qualitative and quantitative factors specific to the measurement.
- D32. Measurement techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as

debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

Cost Approach

D33. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Market Participant

D34. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

Income Approach

D35. When estimating fair value, the income approach can be applied using several methods. Those methods include, for example, the following:

- (a) Present value techniques (see paragraph D36);
- (b) Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and
- (c) The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Present Value Techniques

D36. Paragraphs D37–D54 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The Components of a Present Value Measurement

D37. Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:

- (a) An estimate of future cash flows for the asset or liability being measured.

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- (b) Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.
- (c) The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).
- (d) The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium).
- (e) Other factors that market participants would take into account in the circumstances.
- (f) For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.

General Principles

D38. Present value techniques differ in how they capture the elements in paragraph D37. However, all the following general principles govern the application of any present value technique used to measure fair value:

- (a) Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.
- (b) Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.
- (c) To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- (d) Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.
- (e) Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and Uncertainty

D39. A measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.

- D40. Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.
- D41. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:
- (a) The discount rate adjustment technique (see paragraphs D42–D46) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.
 - (b) Method 1 of the expected present value technique (see paragraph D49) uses risk-adjusted expected cash flows and a risk-free rate.
 - (c) Method 2 of the expected present value technique (see paragraph D50) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

Discount Rate Adjustment Technique

- D42. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).
- D43. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a ‘build-up’ approach).
- D44. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:
- (a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent $[(CU1,200/CU1,083) - 1]$.

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- (b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent $[(CU700/CU566)^{0.5} - 1]$.
 - (c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).
- D45. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the value of Asset A is CU722 ($CU800/1.108$). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.
- D46. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

Expected Present Value Technique

- D47. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).
- D48. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:
- (a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.
 - (b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

- D49. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash

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flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.

- D50. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.
- D51. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

Possible cash flows	Probability	Probability-weighted cash flows
CU500	15%	CU75
CU800	60%	CU480
CU900	25%	CU225
Expected cash flows		CU780

- D52. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.
- D53. In theory, the present value of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:
- (a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent ($CU780 - [CU780 \times (1.05/1.08)]$),

which results in risk-adjusted expected cash flows of CU758 (CU780 – CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is CU722 (CU758/1.05).

- (b) Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value of the asset is CU722 (CU780/1.08).

D54. When using an expected present value technique, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgments applied.

Inputs to Measurement Techniques

General Principles

D55. Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

D56. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following:

- (a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange.
- (b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment).
- (c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.
- (d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.

D57. An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 32 and 33). In some cases, those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest

discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IPSAS that requires or permits the fair value measurement (see paragraphs 34 and 35). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph D66) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph D65.

Fair Value Hierarchy

- D58. To increase consistency and comparability in fair value measurements and related disclosures, this Appendix establishes a fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value (see paragraphs D62–D89). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).
- D59. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs of disposal, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.
- D60. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurement techniques (see paragraph D27). However, the fair value hierarchy prioritizes the inputs to measurement techniques, not the measurement techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.
- D61. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.

Level 1 Inputs

- D62. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

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- D63. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph D65.
- D64. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:
- (a) The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and
 - (b) Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.
- D65. An entity shall not make an adjustment to a Level 1 input except in the following circumstances:
- (a) When an entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.
 - (b) When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.
 - (c) When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph AG143F of IPSAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.
- D66. If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 Inputs

- D67. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- D68. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:
- (a) Quoted prices for similar assets or liabilities in active markets.
 - (b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (c) Inputs other than quoted prices that are observable for the asset or liability, for example:
 - (i) Interest rates and yield curves observable at commonly quoted intervals;
 - (ii) Implied volatilities; and
 - (iii) Credit spreads.
 - (d) Market-corroborated inputs.
- D69. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:
- (a) The condition or location of the asset;
 - (b) The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph AG143F of IPSAS 41); and
 - (c) The volume or level of activity in the markets within which the inputs are observed.
- D70. An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.
- D71. Paragraph D72 describes the use of Level 2 inputs for particular assets and liabilities.
- D72. Examples of Level 2 inputs for particular assets and liabilities include the following:
- (a) Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.
 - (b) Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.

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- (c) Building held and used. A Level 2 input would be the price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations.
- (d) Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational, market, financial and non-financial factors.

Level 3 Inputs

- D73. Level 3 inputs are unobservable inputs for the asset or liability.
- D74. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.
- D75. Assumptions about risk include the risk inherent in a particular measurement technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurement technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs D76–D86).

Measuring Fair Value when the Volume or Level of Activity for an Asset or a Liability has Significantly Decreased

- D76. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:
- (a) There are few recent transactions.
 - (b) Price quotations are not developed using current information.
 - (c) Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets).
 - (d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
 - (e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted

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prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.

- (f) There is a wide bid-ask spread or significant increase in the bid-ask spread.
 - (g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities.
 - (h) Little information is publicly available (e.g., for transactions that take place in a principal-to-principal market).
- D77. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).
- D78. This Appendix does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs D26–D29 and D31–D40 for a discussion of the use of measurement techniques when measuring fair value. Regardless of the measurement technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph D48). Otherwise, the measurement does not faithfully represent fair value. In some cases, determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.
- D79. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurement technique or the use of multiple measurement techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurement techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.
- D80. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.
- D81. Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the

measurement date and requires judgment. An entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

Identifying Transactions that are not Orderly

D82. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:

- (a) There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
- (b) There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
- (c) The seller is in or near bankruptcy or receivership (i.e., the seller is distressed).
- (d) The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced).
- (e) The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

D83. An entity shall consider all the following when measuring fair value or estimating market risk premiums:

- (a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.
- (b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:
 - (i) The volume of the transaction.
 - (ii) The comparability of the transaction to the asset or liability being measured.
 - (iii) The proximity of the transaction to the measurement date.
- (c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

Using Quoted Prices Provided by Third Parties

- D84. This Appendix does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Appendix.
- D85. If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a measurement technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.
- D86. Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.

Level 3 Inputs

- D87. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g., an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.
- D88. Paragraph C89 describes the use of Level 3 inputs for particular assets and liabilities.
- D89. Examples of Level 3 inputs for particular assets and liabilities include the following:
- (a) Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.
 - (b) Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.
 - (c) Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.

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- (d) Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfill the liability (including market participants' expectations about the costs of fulfilling the liability and the compensation that a market participant would require for taking on the liability to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.
- (e) Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 133, 134, 141, and 143 are amended. Paragraph 153P is added. New text is underlined and deleted text is struck through.

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Structure and Content

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Notes

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Disclosure of Accounting Policies

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133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, the historical cost basis, ~~current cost, net realizable value, current operational value, cost of fulfillment, or fair value~~recoverable amount, or recoverable service amount), because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the current value model ~~fair value~~ or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSASs specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, IPSAS 17 requires disclosure of the measurement bases used for classes of property, plant, and equipment. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

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Key Sources of Estimation Uncertainty

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141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of ~~recently observed market prices~~ a quoted price in an active market used to measure the

following assets and liabilities, future-oriented estimates are necessary to measure (a) the recoverable amount of certain classes of property, plant, and equipment, (b) the effect of technological obsolescence on inventories, and (c) provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

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143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at current operational value or fair value based on a quoted price in an active market for an identical asset or liability. ~~recently observed market prices~~ ~~their~~ Such current operational values or fair values might change materially within the next financial year, but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

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Effective Date

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- 153P. **Paragraphs 133, 134, 141, and 143 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

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Amendments to IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph 57 is amended. Paragraph 59F is added. New text is underlined and deleted text is struck through.

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Impracticability in Respect of Retrospective Application and Retrospective Restatement

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57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:
- (a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and
 - (b) Would have been available when the financial statements for that prior period were authorized for issue;

from other information. For some types of estimates (e.g., ~~an estimate of a fair value measurement that uses significant unobservable not based on an observable price or observable~~ inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

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Effective Date

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59F. Paragraph 57 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Amendments to IPSAS 4, The Effects of Changes in Foreign Exchange Rates

Paragraphs 27 and A5 are amended. Paragraph 71H is added. New text is underlined and deleted text is struck through.

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Reporting Foreign Currency Transactions in the Functional Currency

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Reporting at Subsequent Reporting Dates

27. At each reporting date:

- (a) Foreign currency monetary items shall be translated using the closing rate;
- (b) Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- (c) Non-monetary items that are measured at fair value or current operational value in a foreign currency shall be translated using the exchange rates at the date when the fair value or current operational value was ~~determined~~ measured.

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Effective Date

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71H. Paragraphs 27 and A5 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods

beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Appendix A

Foreign Currency Transactions and Advance Consideration

This Appendix is an integral part of IPSAS 4.

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Scope

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A5. This Appendix does not apply when an entity measures the related asset, expense or revenue on initial recognition:

- (a) At fair value or current operational value; or

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Amendments to IPSAS 9, Revenue from Exchange Transactions

Paragraph 11 is amended. Paragraph 41F is added. New text is underlined and deleted text is struck through.

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Definitions

11. 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.

~~Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.~~

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, 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.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. Fair value is defined in IPSAS 46, *Measurement*.

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Effective Date

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- 41F. Paragraph 11 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Amendments to IPSAS 10, *Financial Reporting in a Hyperinflationary Economy*

Paragraph 31 is amended. Paragraph 38G is added. New text is underlined and deleted text is struck through.

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The Restatement of Financial Statements

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Corresponding Figures

31. Corresponding figures for the previous reporting period, whether they were based on an historical cost approach model or a current cost approach value model, are restated by applying a general price index, so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4 apply.

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Effective Date

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- 38G. Paragraph 31 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Amendments to IPSAS 12, *Inventories*

Paragraphs 10 and 47 are amended. Paragraphs 50A–50F, and 51H are added. New text is underlined and deleted text is struck through.

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Definitions

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Net Realizable Value

10. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. ~~Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace.~~ Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs ~~to sell~~ of disposal.

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Disclosure

47. **The financial statements shall disclose:**
- (a) **The accounting policies adopted in measuring inventories, including the cost formula used;**
 - (b) **The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**
 - (c) **The carrying amount of inventories carried at fair value less costs ~~to sell~~ of disposal;**

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Current Value Measurement

- 50A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**
- (a) **For inventories that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
 - (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**
- 50B. To meet the objectives in paragraph 50A, an entity shall consider all the following:
- (a) The level of detail necessary to satisfy the disclosure requirements;
 - (b) How much emphasis to place on each of the various requirements;
 - (c) How much aggregation or disaggregation to undertake; and
 - (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 50A, an entity shall disclose additional information necessary to meet those objectives.

50C. To meet the objectives in paragraph 50A, an entity shall disclose, at a minimum, the following information for each class of inventories (see paragraph 50D for information on determining appropriate classes of inventories) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of inventories are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of inventories are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those inventories held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

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- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

50D. An entity shall determine the appropriate disaggregation of inventories on the basis of the following:

- (a) The nature, characteristics and risks of the inventories; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of inventories for which disclosures about fair value measurements should be provided requires judgment. Inventories will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an inventory, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

50E. For each class of inventories not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 50C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, required by paragraph 50C(c). For such inventories, an entity does not need to provide the other disclosures required by this Standard.

50F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

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Effective Date

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51H. Paragraphs 10 and 47 were amended, and paragraphs 50A–50F were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual

financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

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Revision of IPSAS 12 as a result of IPSAS 46, Measurement

BC9. The IPSASB developed IPSAS 46 to ensure that measurement bases are applied consistently to all transactions. This pronouncement amends IPSAS 12 by:

- (a) Updating the definition of fair value to clarify its application across IPSAS and align with IFRS; and
- (b) Adding fair value disclosure requirements to help users assess the measurement techniques and inputs used to measure inventory at fair value and the effect on surplus or deficit or net assets/equity for the period.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 46.

BC10. IPSAS 46 also introduced a public sector specific measurement basis applicable to assets held for their operational capacity. As part of its review of all measurement bases in its literature, the IPSASB considered whether current operational value should be added to, or replace, an existing measurement basis in this Standard.

BC11. The IPSASB agreed to retain the current measurement bases in this Standard. The IPSASB specifically noted current replacement cost, which shares some characteristics with current operational value, should be retained, and not replaced in this Standard because when IPSAS 46 was issued, the IPSASB was not aware of any issues in practice when applying current replacement cost to inventory. The IPSASB agreed any changes to a specific measurement basis in this Standard should be considered as part of a standalone project related to this IPSAS. This will allow stakeholders to clearly consider the implications of the proposal.

Amendments to IPSAS 16, Investment Property

Paragraphs 33, 38, 39, 40, 41, 41A, 41C, 42, 49, 49A, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 and the related headings above paragraphs 42, 62, 65, 86, 87, 89A, 90, 97 and 100 are amended. Paragraphs 89A–89F, and 101K are added. Paragraphs 45–48, 51–56, 58, 60, and 86(d) are deleted. New text is underlined and deleted text is struck through.

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Measurement at Recognition

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33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial recognition, to adopt either the ~~fair~~ current value model (paragraphs 42–64) or the historical cost model (paragraph 65).

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38. The fair value of an asset ~~for which comparable market transactions do not exist~~ is reliably measurable if (a) the variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset or (b) the probabilities of the various ~~estimates~~ measurements within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value. If the entity is able to ~~determine~~ measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after Recognition

Accounting Policy

39. With the exception noted in paragraph 41A, an entity shall choose as its accounting policy either the ~~fair~~ current value model in paragraph 42-64 or the historical cost model in paragraph 65, and shall apply that policy to all of its investment property.
40. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the ~~fair~~ current value model to the historical cost model will result in a more relevant presentation.
41. This Standard requires all entities to ~~determine~~ measure the fair value of investment property, for the purpose of either measurement (if the entity uses the ~~fair~~ current value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to ~~determine~~ measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

41A. An entity may:

- (a) **Choose either the ~~fair~~ current value model or the historical cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**
- (b) **Choose either the ~~fair~~ current value model or the historical cost model for all other investment property, regardless of the choice made in (a).**

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41C. If an entity chooses different models for the two categories described in paragraph 41A, sales of investment property between pools of assets measured using different models shall be recognized at fair value and the cumulative change in fair value shall be recognized in surplus or deficit. Accordingly, if an investment property is sold from a pool in which the fair current value model is used into a pool in which the historical cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

Fair Current Value Model

42. After initial recognition, an entity that chooses the fair current value model shall measure all of its investment property at fair value, except in the cases described in paragraph 62.

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45. ~~The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale. [Deleted]~~

46. ~~An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal. [Deleted]~~

47. ~~The fair value of investment property shall reflect market conditions at the reporting date. [Deleted]~~

48. ~~Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous. [Deleted]~~

49. ~~When measuring the~~ The fair value of investment property in accordance with Appendix D of IPSAS 46, an entity shall ensure that the fair value reflects, among other things, rental revenue from current leases and reasonable and supportable other assumptions that represent what knowledgeable, willing parties market participants would assume use when pricing the investment property about rental revenue from future leases in the light of under current market conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property.

49A. When a lessee uses the fair current value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying asset, at fair value.

50. IPSAS 43 specifies the basis for initial recognition of the cost of an investment property held by a lessee as a right-of-use asset. Paragraph 42 requires investment property held by a lessee as a right-of-use asset to be remeasured, if necessary, to fair value if the entity chooses the fair current value model. When lease payments are at market rates, the fair value of investment property held by a lessee as a right-of-use asset at acquisition, net of all expected lease payments (including those relating to recognized lease liabilities), should be zero. Thus, remeasuring a right-of-use asset from cost in accordance with IPSAS 43 to fair value in accordance with paragraph 42 (taking into account the requirements in paragraph 59) should not give rise to any initial gain or loss, unless fair value is

MEASUREMENT

measured at different times. This could occur when an election to apply the fair value basis model is made after initial recognition.

51. ~~The definition of fair value refers to “knowledgeable, willing parties”. In this context, “knowledgeable” means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require. [Deleted]~~
52. ~~A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (e.g., a willing seller would not take into account the particular tax circumstances of the actual investment property owner). [Deleted]~~
53. ~~The definition of fair value refers to an arm’s length transaction. An arm’s length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently. [Deleted]~~
54. ~~The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms of the leases and other contracts relating to the property. [Deleted]~~
55. ~~In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:~~
 - ~~(a) Current prices in an active market for properties of different nature, condition, or location (or subject to different lease or other contracts), adjusted to reflect those differences;~~
 - ~~(b) Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and~~
 - ~~(c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence, such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. [Deleted]~~
56. ~~In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates. [Deleted]~~
57. ~~In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value estimates measurements will be so great, and the~~

probabilities of the various outcomes so difficult to assess, that the usefulness of a single ~~estimate~~ measure of fair value is negated. This may indicate that the fair value of the property will not be reliably ~~determinable~~ measurable on a continuing basis (see paragraph 62).

58. ~~Fair value differs from value in use, as defined in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors, to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:~~

- ~~(a) Additional value derived from the creation of a portfolio of properties in different locations;~~
- ~~(b) Synergies between investment property and other assets;~~
- ~~(c) Legal rights or legal restrictions that are specific only to the current owner; and~~
- ~~(d) Tax benefits or tax burdens that are specific to the current owner. [Deleted]~~

59. In determining the carrying amount of investment property under the fair value ~~model~~ basis, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:

- (a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognized separately as property, plant, and equipment.
- (b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.
- (c) The fair value of investment property excludes prepaid or accrued lease revenue, because the entity recognizes it as a separate liability or asset.
- (d) The fair value of investment property held by a lessee as a right-of-use asset reflects expected cash flows (including variable lease payments that are expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized lease liability, to arrive at the carrying amount of the investment property using the fair value ~~model~~ basis.

60. ~~The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. [Deleted]~~

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Inability to ~~Determine~~ Measure Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably ~~determine~~ measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment**

property is not reliably ~~determinable~~ measurable on a continuing basis. This arises when, and only when, the market for comparable market property is inactive (e.g., there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) ~~are infrequent~~ and alternative reliable ~~estimates~~ measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably ~~determinable~~ measurable but expects the fair value of the property to be reliably ~~determinable~~ measurable when construction is complete, it shall measure that investment property under construction at historical cost until either its fair value becomes reliably ~~determinable~~ measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably ~~determinable~~ measurable on a continuing basis, the entity shall measure that investment property using the historical cost model in IPSAS 17 for owned investment property or in accordance with IPSAS 43 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply IPSAS 17 or IPSAS 43 until disposal of the investment property.

- 62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the historical cost model in accordance with IPSAS 17 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.
- 62B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be ~~determined~~ measured reliably.
63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the historical cost model in accordance with IPSAS 17 or IPSAS 43, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the historical cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair current value model.

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Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**
- (a) In accordance with IPSAS 43 if it is held by a lessee as a right-of-use asset;**
 - (b) In accordance with the requirements in IPSAS 17 for the historical cost model if it is held by an owner as an owned investment property; and**

- (c) In accordance with IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale).

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Transfers

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70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the ~~fair current~~ value model for investment property. When an entity uses the historical cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

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Disposals

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79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the historical cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the ~~fair current~~ value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

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Disclosure

Fair Current Value Model and Historical Cost Model

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86. An entity shall disclose:
- (a) Whether it applies the ~~fair current~~ value or the historical cost model;
 - (b) [Deleted]
 - (c) When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;
 - (d) ~~The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was~~

~~supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;~~

(e) ...

...

Fair Current Value Model

87. In addition to the disclosures required by paragraph 86, an entity that applies the fair current value model in paragraphs 42-64 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

(a) ...

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89. In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in IPSAS 17 or in accordance with IPSAS 43, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

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(b) An explanation of why fair value cannot be ~~determined~~ measured reliably;

...

Current Value Measurement

89A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For investment properties that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

89B. To meet the objectives in paragraph 89A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 89A, an entity shall disclose additional information necessary to meet those objectives.

- 89C. To meet the objectives in paragraph 89A, an entity shall disclose, at a minimum, the following information for each class of investment property (see paragraph 89D for information on determining appropriate classes of investment property) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:
- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of investment property are those that this Standard requires or permits in the statement of financial position in particular circumstances;
 - (b) For recurring and non-recurring fair value measurements, whether the fair value measurements are estimated using observable or unobservable inputs. For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
 - (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
 - (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
 - (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investment

properties held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

89D. An entity shall determine the appropriate disaggregation of investment property on the basis of the following:

- (a) The nature, characteristics and risks of the investment property; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of investment property for which disclosures about fair value measurements should be provided requires judgment. Investment property will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation of investment property, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

89E. For each class of investment property not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 89C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 89C(c). For such investment properties, an entity does not need to provide the other disclosures required by this Standard.

89F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

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Historical Cost Model

90. In addition to the disclosures required by paragraph 86, an entity that applies the **historical cost model** in paragraph 65 shall disclose:

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(e) The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot ~~determine~~ **measure** the fair value of the investment property reliably, the entity shall disclose:

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(ii) An explanation of why fair value cannot be ~~determined~~ **measured** reliably; and

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Transitional Provisions

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Fair Current Value Model

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97. An entity that (a) has previously applied IPSAS 16 (2001), and (b) elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property, shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition:

(a) If the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (~~determined~~ **measured** on a basis that satisfies the definition of fair value and the guidance in ~~paragraphs 45–64~~ **Appendix D of IPSAS 46**), the entity is encouraged, but not required:

(i) To adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and

(ii) To restate comparative information for those periods; and

(b) If the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.

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Historical Cost Model

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Effective Date

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101K. **Paragraphs 33, 38, 39, 40, 41, 41A, 41C, 42, 49, 49A, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 and the related headings of paragraphs 42, 62, 65, 86, 87, 89A, 90, 97 and 100 were amended, paragraphs 89A–89F were added, and paragraphs 45–48, 51–56, 58, 60, and 86(d) were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments**

for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Basis for Conclusions

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Revision of IPSAS 16 as a result of IPSAS 46, *Measurement*

BC12. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to update measurement terminology and disclosure requirements for consistency with IPSAS 46, remove guidance on measurement in IPSAS 16 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Amendments to IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraphs 2, 10 and 29 are amended. Paragraphs 10A and 82M are added. New text is underlined and deleted text is struck through.

Scope

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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:**
 - (a) Inventories (see IPSAS 12, Inventories);
 - (b) Assets arising from construction contracts (see IPSAS 11, Construction Contracts);
 - (c) Financial assets that are included in the scope of IPSAS 41, Financial Instruments;
 - (d) Investment property that is measured using the ~~fair~~ current value model (see IPSAS 16, Investment Property);
 - (e) ...

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Scope

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10. This Standard does not require the application of an impairment test to ~~an~~ investment property ~~that is carried~~ measured at fair value ~~in accordance with~~ within the scope of IPSAS 16. This is because, under the ~~fair~~ current value model in IPSAS 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.

10A. However, this Standard applies to non-cash-generating assets that are carried at revalued amounts (i.e., fair value or current operational value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in IPSAS 45, *Property, Plant, and Equipment* and the revaluation model in IPSAS 31, *Intangible Assets*.

(a) If the disposal costs are negligible, the recoverable service amount of the revalued non-cash-generating asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued non-cash-generating asset is impaired and recoverable service amount need not be estimated.

(b) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued non-cash-generating asset is necessarily less than its fair value. Therefore, the revalued non-cash-generating asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the non-cash-generating asset may be impaired.

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Identifying an Asset that may be Impaired

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29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:

(a) During the period, There are observable indications that the an asset's market value has declined during the period significantly more than would be expected as a result of the passage of time or normal use; or

(b) A significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

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Effective Date

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82M. Paragraphs 2, 10 and 29 were amended and paragraph 10A was added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 21.

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Property, Plant, and Equipment and Intangible Assets

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BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs ~~to sell~~ of disposal and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches ~~may also be~~ were also adopted to measure fair value under IPSAS 17 and IPSAS 31 and therefore the value in use ~~is~~ was a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs ~~to sell~~ of disposal and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.

BC19A. The IPSASB has since issued IPSAS 46, which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, with guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the restoration cost approach and the service units approach were appropriate to estimate fair value. The IPSASB noted that the alternatives included in IPSAS 17 and IPSAS 31 are inconsistent with measurement techniques available in IPSAS 46 to measure fair value. The IPSASB agreed to update the definition of fair value in IPSAS 31 to align with IPSAS 46, and replaced IPSAS 17 with IPSAS 45, *Property, Plant, and Equipment*.

...

Reversal of Impairment

...

BC25. Paragraph 27(c) includes "Evidence is available of physical damage of an asset" as a minimum indication of impairment. Paragraph 60 does not include an indication of reversal of impairment that mirrors this indication of impairment. The IPSASB has not included repair of an asset as an indication of reversal, because IPSAS 17 requires entities to add subsequent expenditure to the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. This requirement also applies to investment property that is measured using the historical cost model under IPSAS 16. The IPSASB is of the view that these requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment. The IPSASB also noted

that restoration or repair of damage does not constitute a change in the estimate of the asset's recoverable service amount after impairment as specified by paragraph 65 of this IPSAS.

...

Revision of IPSAS 21 as a result of IPSAS 46, *Measurement*

BC28. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed the concept of fair value should be retained in IPSAS 21, independent of the revised definition of fair value proposed in IPSAS 46. The IPSASB agreed any changes to the concept of fair value in IPSAS 21 should be considered as part of an IPSAS 21 specific project and in the context of estimating impairment more broadly.

...

Comparison with IAS 36 (2004)

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.
- ~~IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the allowed alternative treatment in IPSAS 17. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.~~
- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRSs. These have not been excluded from IPSAS 21 because there are not equivalent IPSASs. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, and (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*.

- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.
- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “revenue,” “recoverable service amount”, and “statement of financial performance,” in IPSAS 21. The equivalent terms in IAS 36 are “income,” “recoverable amount,” and “income statement.”

Amendments to IPSAS 22, Disclosure of Financial Information about the General Government Sector

Paragraph 32 is amended. Paragraph 47G is added. New text is underlined and deleted text is struck through.

...

Accounting Policies

...

32. Statistical bases of reporting require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements, and require or permit an historical cost model and current values model for certain classes of assets and liabilities. They do not require all assets and liabilities to be revalued to market value. Therefore, the measurement of assets and liabilities in the GGS disclosures in the financial statements, including the investment in the PFC and PNFC sectors, may differ from the measurement basis adopted in statistical bases of reporting.

...

Effective Date

...

- 47G. Paragraph 32 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

...

Basis for Conclusions

...

Consolidation and Disaggregation

BC7. Statistical bases of financial reporting and IPSASs have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, statistical bases of financial reporting:

- (a) Require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements, and require or permit a historical cost model and current values model for certain classes of assets and liabilities;
- (b) ...

...

Amendments to IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)

Paragraphs 42 and 124I are added New text is underlined and deleted text is struck through.

...

Recognition of Assets

...

Measurement of Assets on Initial Recognition

42. **An asset acquired through a non-exchange transaction shall initially be measured at its fair current value as at the date of acquisition.**

...

Effective Date

...

- 124I. **Paragraph 42 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

...

Basis for Conclusions

Measurement of Assets

BC16. Prior to the effective date of IPSAS 46, *Measurement*, This this Standard requires required that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. The IPSASB is of the view that this is had concluded the use of fair value was appropriate to reflect the substance of the transaction and its consequences for the recipient. In an exchange transaction, the cost of acquisition is a measure of the fair value of the asset acquired. However, by definition, in a non-exchange transaction the consideration provided for the acquisition

of an asset is not approximately equal to the fair value of the asset acquired. Fair value most faithfully ~~represents~~ represented the actual value the public sector entity accrues as a result of the transaction. Initial measurement of assets acquired through non-exchange transactions at their fair value ~~is~~ was consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB ~~has had~~ made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSASs with the requirements of this Standard.

BC16A. As part of the development of IPSAS 46, *Measurement*, the IPSASB decided, in the case of property, plant, and equipment held for its operational capacity, deemed cost should be clarified to include current operational value. The IPSASB agreed to require the use of current operational value on initial measurement where the transaction price does not faithfully reflect the substance of the transaction for property, plant, and equipment held for their operational capacity. While fair value continues to faithfully represent the value to the public sector entity of property, plant, and equipment held for its financial capacity, current operational value faithfully represents the value of property, plant, and equipment held for their operational capacity.

...

Amendments to IPSAS 26, Impairment of Cash-Generating Assets

Paragraphs 8, 10, 13, 25, 31–36, 41, 42, 66, 78, 85, 87, 89, 92, 94, 100, 104, 120, and 123, and the related heading of paragraphs 41 are amended. Paragraphs 10A, 66A and 126O are added. Paragraphs 38–40 are deleted. New text is underlined and deleted text is struck through.

...

Scope

...

8. This Standard does not apply to inventories and cash-generating assets arising from construction contracts, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) because existing standards applicable to these assets contain requirements for recognizing 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 of disposal. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

...

10. This Standard does not require the application of an impairment test to ~~an~~ investment property ~~that is carried~~ measured at fair value ~~in accordance with~~ within the scope of IPSAS 16. Under the fair current value model in IPSAS 16, an investment property is carried at fair value at the reporting date, and any impairment will be taken into account in the valuation.

...

- 10A. However, this Standard applies to cash-generating assets that are carried at revalued amounts (i.e., fair value or current operational value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The only difference between a cash-generating asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the cash-generating asset.
- (a) If the disposal costs are negligible, the recoverable amount of the revalued cash-generating asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued cash-generating asset is impaired and recoverable amount need not be estimated.
- (b) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued cash-generating asset is necessarily less than its fair value. Therefore, the revalued cash-generating asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the cash-generating asset may be impaired.

...

Definitions

13. **The following terms are used in this Standard with the meanings specified:**

...

Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs ~~to sell~~ of disposal and its value in use.

...

Identifying an Asset that may be Impaired

...

25. **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **~~During the period,~~ There are observable indicators that an asset's market value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;**

...

Measuring Recoverable Amount

31. This Standard defines "recoverable amount" as the higher of an asset's fair value less costs ~~to sell~~ of disposal and its value in use. Paragraphs 32–70 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit.

32. It is not always necessary to determine both an asset's fair value less costs ~~to sell~~ of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
33. It may be possible to ~~determine~~ measure fair value less costs ~~to sell~~ of disposal, even if ~~there is not a quoted price in an active market for an identical asset is not traded in an active market~~. However, sometimes it will not be possible to ~~determine~~ measure fair value less costs ~~to sell~~ of disposal because there is no basis for making a reliable³ estimate of the ~~amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties~~ price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.
34. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs ~~to sell~~ of disposal, the asset's fair value less costs ~~to sell~~ of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.
35. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 85–90), unless either:
- (a) The asset's fair value less costs ~~to sell~~ of disposal is higher than its carrying amount; or
 - (b) The asset is a part of a cash-generating unit but is capable of generating cash flows individually, in which case the asset's value in use can be estimated to be close to its fair value less costs ~~to sell~~ of disposal and the asset's fair value less costs ~~to sell~~ of disposal can be ~~determined~~ measured.
36. In some cases, estimates, averages and computational shortcuts may provide reasonable approximations of the detailed computations for determining fair value less costs ~~to sell~~ of disposal or value in use.

...

Fair Value less Costs to Sell of Disposal

38. ~~The best evidence of an asset's fair value less costs to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. [Deleted]~~
39. ~~If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction~~

³ 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 discusses the transitional approach to the explanation of reliability.

may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made. [Deleted]

40. ~~If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available that reflects the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale. [Deleted]~~
41. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining measuring fair value less costs ~~to sell~~ of disposal. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits and costs associated with reducing or reorganizing ~~a business~~ an operation following the disposal of an asset are not direct incremental costs to dispose of the asset.
42. Sometimes, the disposal of an asset would require the buyer to assume a liability, and only a single fair value less costs ~~to sell~~ of disposal is available for both the asset and the liability. Paragraph 89 explains how to deal with such cases.

Value in Use

...

Composition of Estimates of Future Cash Flows

...

66. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs ~~to sell~~ of disposal, except that, in estimating those net cash flows:
- (a) ...
- 66A. Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:
- (a) Additional value derived from the grouping of assets (such as the creation of a portfolio of investment property in different locations);
- (b) Synergies between the asset being measured and other assets;
- (c) Legal rights or legal restrictions that are specific only to the current owner of the asset; and
- (d) Tax benefits or tax burdens that are specific to the current owner of the asset.

...

Cash-Generating Units and Goodwill

...

Identifying the Cash-Generating Unit to which an Asset Belongs

...

78. The recoverable amount of an individual asset cannot be determined if:

- (a) The asset's value in use cannot be estimated to be close to its fair value less costs ~~to sell~~ of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and
- (b) The asset does not generate cash inflows that are largely independent of those from other assets and is not capable of generating cash flows individually.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

...

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

85. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs ~~to sell~~ of disposal and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 31–70 to an asset is read as a reference to a cash-generating unit.

...

87. The carrying amount of a cash-generating unit:

- (a) Includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and
- (b) Does not include the carrying amount of any recognized liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because fair value less costs ~~to sell~~ of disposal and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognized (see paragraphs 41 and 56).

...

89. It may be necessary to consider some recognized liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs ~~to sell~~ of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the ~~estimated selling price~~ to sell for the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

...

Impairment Loss for a Cash-Generating Unit

...

92. **In allocating an impairment loss in accordance with paragraph 91, an entity shall not reduce the carrying amount of an asset below the highest of:**

- (a) **Its fair value less costs ~~to sell~~ of disposal (if ~~determinable~~ measurable);**

...

94. If the recoverable amount of an individual asset cannot be determined (see paragraph 78):

- (a) An impairment loss is recognized for the asset if its carrying amount is greater than the higher of its fair value less costs ~~to sell~~ of disposal and the results of the allocation procedures described in paragraphs 91–93; and
- (b) No impairment loss is recognized for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs ~~to sell~~ of disposal is less than its carrying amount.

...

Reversing an Impairment Loss

...

100. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **There are observable indications that ~~The the~~ asset's market value has increased significantly during the period;**

...

104. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

- (a) A change in the basis for recoverable amount (i.e., whether recoverable amount is based on fair value less costs ~~to sell~~ of disposal or value in use);
- (b) If recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows, or in the discount rate; or
- (c) If recoverable amount was based on fair value less costs ~~to sell~~ of disposal, a change in estimate of the components of fair value less costs ~~to sell~~ of disposal.

...

Disclosure

...

120. An entity shall disclose the following for each material impairment loss recognized or reversed during the period for a cash-generating asset (including goodwill) or a cash-generating unit:

...

- (e) Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs ~~to sell~~ of disposal or its value in use;
- (f) If the recoverable amount is fair value less costs ~~to sell~~ of disposal, ~~the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market; and~~ the entity shall disclose the following information:
 - (i) The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement of the asset (cash-generating unit) is categorized in its entirety (without taking into account whether the 'costs of disposal' are observable);
 - (ii) For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) used to measure fair value less costs of disposal. If there has been a change in measurement technique, the entity shall disclose that change and the reason(s) for making it; and
 - (iii) For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

...

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Intangible Assets with Indefinite Useful Lives

123. An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

...

- (c) The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs ~~to sell~~ of disposal);
- (d) If the unit's (group of units') recoverable amount is based on value in use:

- (i) ~~A description of each~~ Each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;

...

- (e) If the unit's (group of units') recoverable amount is based on fair value less costs ~~to sell of disposal~~, the methodology measurement technique(s) used to determine measure fair value less costs ~~to sell of disposal~~. If fair value less costs ~~to sell of disposal~~ is not ~~determined~~ measured using ~~an observable market~~ a quoted price for ~~the~~ an identical unit (group of units), an entity shall disclose the following information ~~shall also be disclosed~~:

- (i) ~~A description of each~~ Each key assumption on which management has based its determination of fair value less costs ~~to sell of disposal~~. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and
- (ii) A description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
- (iia) The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement is categorized in its entirety (without giving regard to the observability of 'costs of disposal').
- (iib) If there has been a change in measurement technique, the change and the reason(s) for making it.

If fair value less costs ~~to sell of disposal~~ is ~~determined~~ measured using discounted cash flow projections, an entity shall disclose the following information ~~shall also be disclosed~~:

- (iii) The period over which management has projected cash flows;
- (iv) The growth rate used to extrapolate cash flow projections; and
- (v) The discount rate(s) applied to the cash flow projections.

...

Effective Date

...

1260. Paragraphs 8, 10, 13, 25, 31-36, 41, 42, 66, 78, 85, 87, 89, 92, 94, 100, 104, 120, and 123 and the related heading of paragraph 41 were amended, paragraphs 10A and 66A were added, and paragraphs 38-40 were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period

beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 26.

Development of IPSAS 26 based on the IASB's revised version of IAS 36 issued in 2004

...

Fair Value less Costs ~~to Sell~~ of Disposal and Forced Sales

...

Revision of IPSAS 26 as a result of IPSAS 46, Measurement

BC22. IPSAS 46, Measurement, issued in May 2023, provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 26 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26.

...

Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

...

IG13. It is not possible to determine the fair value less costs ~~to sell~~ of disposal of the power plant. Therefore, recoverability can only be determined through the calculation of value in use. To determine the value in use for the power plant (see Schedule 1), Government R:

- (a) Prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management;
- (b) Estimates subsequent cash flows (years 20Y0–20Y9) based on declining growth rates ranging from -6 percent per annum to -3 percent per annum; and
- (c) Selects a 6 percent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to Government R's power plant.

...

Inclusion of Recognized Liabilities in Calculation of Recoverable Amount of a Cash-Generating Unit

...

Impairment Testing

...

IG24. The cash-generating unit's fair value less costs ~~to sell~~ of disposal is CU800. This amount includes restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs, and is estimated to be CU700 (CU1,200 minus CU500). The carrying amount of the cash-generating unit is CU500, which is the carrying amount of the site (CU1,000) minus the carrying amount of the provision for restoration costs (CU500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

...

Accounting Treatment of an Individual Asset in a Cash-Generating Unit dependent on whether Recoverable Amount can be Determined

Background

IG25. A holding tank at a water purification plant has suffered physical damage but is still working, although not as well as before it was damaged. The holding tank's fair value less costs ~~to sell~~ of disposal is less than its carrying amount. The holding tank does not generate independent cash inflows. The smallest identifiable group of assets that includes the holding tank and generates cash inflows that are largely independent of the cash inflows from other assets is the plant to which the holding tank belongs. The recoverable amount of the plant shows that the plant taken as a whole is not impaired.

Recoverable Amount of Holding Tank Cannot be Determined

...

IG27. The recoverable amount of the holding tank alone cannot be estimated because the holding tank's value in use:

- (a) May differ from its fair value less costs ~~to sell~~ of disposal; and
- (b) Can be determined only for the cash-generating unit to which the holding tank belongs (the water purification plant).

The plant is not impaired. Therefore, no impairment loss is recognized for the holding tank. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the holding tank. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the holding tank or the pattern in which economic benefits are expected to be consumed by the entity.

...

Recoverable Amount of Holding Tank Can be Determined

...

- IG29. The holding tank's value in use can be estimated to be close to its fair value less costs ~~to sell~~ of disposal. Therefore, the recoverable amount of the holding tank can be determined, and no consideration is given to the cash-generating unit to which the holding tank belongs (i.e., the production line). Because the holding tank's fair value less costs ~~to sell~~ of disposal is below its carrying amount, an impairment loss is recognized for the holding tank.

Comparison with IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- ~~IPSAS 26 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the revaluation model in IPSAS 17, *Property, Plant, and Equipment*. IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.~~
- ~~IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.~~
- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs ~~to sell~~ of disposal. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the redesignation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.

- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “revenue” and “statement of financial performance.” The equivalent terms in IAS 36 are “income” and “income statement.”

Amendments to IPSAS 27, *Agriculture*

Paragraphs 19, 20, 26, 29 and 34 are amended. Paragraphs 46A–46F and 56J are added. Paragraphs 14, 21–25, 27, 45 and 46 are deleted. New text is underlined and deleted text is struck through.

...

Recognition and Measurement

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14. ~~The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle either to that market or to the location where it will be distributed at no charge or for a nominal charge. [Deleted]~~

...

19. ~~The determination of fair value~~ measurement of ~~for~~ a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.
20. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in ~~determining~~ measuring fair value, because fair value reflects the current market conditions in which ~~a willing buyer and seller~~ market participant buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce in an exchange transaction may be an onerous contract, as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 applies to onerous contracts.
21. ~~If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used. [Deleted]~~
22. ~~If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:~~
- ~~(a) The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;~~
 - ~~(b) Market prices for similar assets with adjustment to reflect differences; and~~
 - ~~(c) Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat. [Deleted]~~

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23. ~~In some cases, the information sources listed in paragraph 22 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates. [Deleted]~~
24. ~~In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined rate in determining fair value. [Deleted]~~
25. ~~The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market. [Deleted]~~
26. An entity does not include any cash flows for financing the assets, ~~taxation,~~ or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).
27. ~~In agreeing an arm's-length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored. [Deleted]~~
- ...
29. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to ~~determine~~ measure the fair value ~~for~~ of the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.
- ...

Inability to Measure Fair Value Reliably

34. **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market-determined prices or values are not available, and for which alternative estimates of fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IPSAS**

44, *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

...

Disclosure

General

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45. ~~An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets. [Deleted]~~
46. ~~An entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest. [Deleted]~~

Current Value Measurements

- 46A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**
- (a) **For agricultural assets that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
 - (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**
- 46B. To meet the objectives in paragraph 46A, an entity shall consider all the following:
- (a) The level of detail necessary to satisfy the disclosure requirements;
 - (b) How much emphasis to place on each of the various requirements;
 - (c) How much aggregation or disaggregation to undertake; and
 - (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 46A, an entity shall disclose additional information necessary to meet those objectives.

- 46C. To meet the objectives in paragraph 46A, an entity shall disclose, at a minimum, the following information for each class of agricultural assets (see paragraph 46D for information on determining appropriate classes of agricultural assets) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:
- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position at the end of each reporting

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- period. Non-recurring fair value measurements of agricultural assets are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
 - (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
 - (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
 - (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those agricultural assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
 - (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
 - (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair

value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

46D. An entity shall determine the appropriate disaggregation of agricultural assets on the basis of the following:

- (a) The nature, characteristics and risks of the agricultural assets; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of agricultural assets for which disclosures about fair value measurements should be provided requires judgment. Agricultural assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an agricultural asset, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

46E. For each class of agricultural assets not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 46C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 46C(c). For such agricultural assets, an entity does not need to provide the other disclosures required by this Standard.

46F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

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Effective Date

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56J. **Paragraphs 19, 20, 26, 29 and 34 were amended, paragraphs 46A–46F were added, and paragraphs 14, 21–25, 27, 45 and 46 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

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Revision of IPSAS 27 as a result of IPSAS 46, *Measurement*

BC18. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 27 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Amendments to IPSAS 28, Financial Instruments: Presentation

Paragraph AG56 is amended. Paragraph 60I is added. New text is underlined and deleted text is struck through.

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Effective Date

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60I. Paragraph AG56 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Application Guidance

This Appendix is an integral part of IPSAS 28.

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Presentation

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Treatment in Consolidated Financial Statements

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Compound Financial Instruments (paragraphs 33–37)

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AG56. Compound financial instruments are not common in the public sector because of the capital structure of public sector entities. The following discussion does, however, illustrate how a compound financial instrument would be analyzed into its component parts. A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into

ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 33 requires the issuer of such a financial instrument to present the liability component and net assets/equity component separately in the statement of financial position, as follows:

...

- (b) The equity instrument is an embedded option to convert the liability into net assets/equity of the issuer. ~~The fair value of the option comprises its time value and its intrinsic value, if any.~~ This option has value on initial recognition even when it is out of the money.

...

Amendments to IPSAS 30, Financial Instruments: Disclosures

Paragraphs 8 and 34 are amended. Paragraphs 30A–30I and 52M are added. Paragraphs 31–33 are deleted. New text is underlined and deleted text is struck through.

...

Definitions

8. The following terms are used in this Standard with the meanings specified:

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Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or **by** factors affecting all similar financial instruments traded in the market.

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Significance of Financial Instruments for Financial Position and Financial Performance

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Other Disclosures

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Fair Value

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- 30A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For financial instruments that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

30B. To meet the objectives in paragraph 30A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 30A, an entity shall disclose additional information necessary to meet those objectives.

30C. To meet the objectives in paragraph 30A, an entity shall disclose, at a minimum, the following information for each class of financial instruments (see paragraph 30D for information on determining appropriate classes of financial instruments) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of financial instruments are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For financial instruments held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;
- (d) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity

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cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized;
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately); and
 - (iv) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those financial instruments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (g) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (h) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d); and
 - (ii) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged

with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.

30D. An entity shall determine the appropriate disaggregation of financial instruments on the basis of the following:

- (a) The nature, characteristics and risks of the financial instruments; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of financial instruments for which disclosures about fair value measurements should be provided requires judgment. Financial instruments will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for a financial instrument, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

30E. An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 30C(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- (a) The date of the event or change in circumstances that caused the transfer;
- (b) The beginning of the reporting period; and
- (c) The end of the reporting period.

30F. If an entity makes an accounting policy decision to use the exception in paragraph IPSAS 41.AG143O, it shall disclose that fact.

30G. For each class of financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 30C(b), (d) and (h). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 30C(d). For such financial instruments, an entity does not need to provide the other disclosures required by this Standard.

30H. For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

30I. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

31. ~~An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets~~

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~~or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it. [Deleted]~~

32. ~~To make the disclosures required by paragraph 33 an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:~~

- ~~(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);~~
- ~~(b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices) (Level 2); and~~
- ~~(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).~~

~~The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. [Deleted]~~

33. ~~For fair value measurements recognized in the statement of financial position an entity shall disclose for each class of financial instruments:~~

- ~~(a) The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 32.~~
- ~~(b) Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.~~
- ~~(c) For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
 - ~~(i) Total gains or losses for the period recognized in surplus or deficit, and a description of where they are presented in the statement of financial performance;~~
 - ~~(ii) Total gains or losses recognized in net assets/equity;~~
 - ~~(iii) Purchases, sales, issues, and settlements (each type of movement disclosed separately); and~~
 - ~~(iv) Transfers into or out of Level 3 (e.g., transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.~~~~

- (d) ~~The amount of total gains or losses for the period in (c)(i) above included in surplus or deficit that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of financial performance.~~
- (e) ~~For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.~~

~~An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate. [Deleted]~~

34. ~~If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG149–AG154 of IPSAS 41). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless conditions described in paragraph AG151 of IPSAS 41 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument: In some cases, an entity does not recognize a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) nor based on a measurement technique that uses only data from observable markets (see paragraph AG117 of IPSAS 41). In such cases, the entity shall disclose by class of financial asset or financial liability:~~
- (a) ~~Its accounting policy for recognizing in surplus or deficit the that difference between the fair value at initial recognition and the transaction price in surplus or deficit to reflect a change in factors (including time) that market participants would consider in setting a price take into account when pricing the asset or liability (see paragraph AG117(b) of IPSAS 41); and~~
- (b) ~~The aggregate difference yet to be recognized in surplus or deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference; and~~
- (c) ~~Why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.~~

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Effective Date and Transition

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- 52M. **Paragraphs 8 and 34 were amended, paragraphs 30A–30I were added, and paragraphs 31–33 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 30.

...

Significance of Financial Instruments for Financial Position and Financial Performance (paragraphs 10–36, AG4 and AG5)

...

Fair Value (paragraphs ~~31–34~~)

...

IG15. IPSAS 30 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a measurement valuation technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 33(b). (Disclosure of comparative information is also required, but is not included in the following example).

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IG16. The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG151 of IPSAS 41. However, when, after initial recognition, an entity will use a measurement valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that measurement valuation technique. In these circumstances, the difference will be recognized in surplus or deficit in subsequent periods in accordance with IPSAS 41 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG 151 of IPSAS 41). ~~Paragraph 33 requires disclosures in these circumstances.~~ An entity might disclose the following to comply with paragraph 34:

Background

On January 1, 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a measurement valuation technique to establish the financial assets' fair value. This measurement valuation technique includes variables other than data from observable markets.

At initial recognition, the same measurement valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at January 1, 20X1.

Application of Requirements

The entity's 20X2 disclosure would include the following:

Accounting Policies

The entity uses the following measurement valuation technique to ~~determine~~ measure the fair value of financial instruments that are not traded in an active market: [description of technique not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IPSAS 41, is generally the transaction price) and the amount determined at initial recognition using the measurement valuation technique. Any such differences are [description of the entity's accounting policy]

In the Notes to the Financial Statements

As discussed in note X, the entity uses [name of measurement valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IPSAS 41, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the measurement valuation technique, that difference is [description of the entity's accounting policy].

...

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123 and 124, and the headings of paragraphs 73, 74, and 123, are amended. Paragraphs 123A–123F and 132N are added. New text is underlined and deleted text is struck through.

...

Recognition and Measurement

...

Exchanges of Assets

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45. Paragraph 28(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset ~~for which comparable market transactions do not exist~~ is reliably measurable if:
- (a) The variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset: or
 - (b) The probabilities of the various ~~estimates~~ measurements within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value.

If an entity is able to ~~determine~~ measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

...

Internally Generated Goodwill

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48. Differences between the ~~market~~ fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

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Subsequent Measurement

71. **An entity shall choose either the historical cost model in paragraph 73 or the ~~revaluation~~ current value model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the ~~revaluation~~ current value model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.**

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Historical Cost Model

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Current Value Revaluation Model

74. **After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be ~~determined~~ measured by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.**
75. The ~~revaluation~~ current value model does not allow:
- (a) The revaluation of intangible assets that have not previously been recognized as assets; or
 - (b) The initial recognition of intangible assets at amounts other than cost.
76. The ~~revaluation~~ current value model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 63), the ~~revaluation~~ current value model may be applied to the whole of that asset. Also, the ~~revaluation~~ current value model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 42–43).

...

81. **If the fair value of a revalued intangible asset can no longer be ~~determined~~ measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.**

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83. If the fair value of the asset can be ~~determined~~ measured by reference to an active market at a subsequent measurement date, the ~~revaluation~~ current value model is applied from that date.

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Intangible Assets with Finite Useful Lives

...

Residual Value

99. **The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**
- (a) **There is a commitment by a third party to acquire the asset at the end of its useful life;**
or
 - (b) **There is an active market (as defined in IPSAS 46) for the asset, and:**
 - (i) **Residual value can be determined by reference to that market; and**
 - (ii) **It is probable that such a market will exist at the end of the asset's useful life.**

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Disclosure

General

...

121. **An entity shall also disclose:**

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- (a) **For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs 42–43):**
 - (i) **The fair value initially recognized for these assets;**
 - (ii) **Their carrying amount; and**
 - (iii) **Whether they are measured after recognition under the historical cost model or the current value ~~revaluation~~ model.**
- (b) ...

...

Intangible Assets Measured after Recognition using the Current Value ~~Revaluation~~ Model

123. **If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**
- (a) **By class of intangible assets:**
 - (i) **The effective date of the revaluation;**

- (ii) **The carrying amount of revalued intangible assets; and**
- (iii) **The carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the historical cost model in paragraph 73;**
- (b) ...
- ~~(c) The methods and significant assumptions applied in estimating the assets' fair values.~~
[Deleted]

123A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For intangible assets that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

123B. To meet the objectives in paragraph 123A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 123A, an entity shall disclose additional information necessary to meet those objectives.

123C. To meet the objectives in paragraph 123A, an entity shall disclose, at a minimum, the following information for each class of intangible assets (see paragraph 123D for information on determining appropriate classes of intangible assets) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of intangible assets are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of intangible assets are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value

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- measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
- (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
- (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
- (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for recurring fair value measurements estimated using unobservable inputs, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those intangible assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
- (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

123D. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of intangible assets (as determined in paragraph 71) is required on the basis of the following:

- (a) The nature, characteristics and risks of the intangible assets; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of intangible assets for which disclosures about fair value measurements should be provided requires judgment. A class of intangible assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an intangible asset, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

123E. For each class of intangible assets not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 123C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 123C(c). For such intangible assets, an entity does not need to provide the other disclosures required by this Standard.

123F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

124. It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the historical cost and current value revaluation models.

Effective Date

...

132N. **Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123, and 124 , and the related headings of paragraphs 73, 74, and 123 were amended, and paragraphs 123A–123F were added by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

...

Current Value Revaluation Model

BC9. The current value revaluation model proposed in IPSAS 31 is similar to the revaluation model that in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. IPSAS 17, *Property, Plant, and Equipment* requires revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB considered this approach for intangible assets, but concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis.

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Revision of IPSAS 31 as a result of *Improvements to IPSAS, 2018*

BC13. Paragraph 109 requires an entity to test an intangible asset for impairment when reassessing its useful life. When this standard was issued, such a test was only required for intangible assets measured under the historical cost model. Following the publication of *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) in July 2016, this test is required for all intangible assets, and paragraph 109 has been amended accordingly.

Revision of IPSAS 31 as a result of IPSAS 46, *Measurement*

BC14. IPSAS 46, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 31 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

BC15. IPSAS 46 introduced current operational value, a public sector current value measurement basis. This measurement basis is primarily applied when assets are held for their operational capacity. When IPSAS 46 was issued, the IPSASB concluded intangible assets are held for their highest and best use and measurement is therefore consistent with fair value measurement. Current operational value was therefore not added as an available measurement basis to IPSAS 31.

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

Paragraphs 9, 64–72, 96B, and 148 are amended. Paragraphs 41B, 64A, 152A–152F and 154M are added. New text is underlined and deleted text is struck through.

...

Definitions

9. The following terms are used in this Standard with the meanings specified:

Date of adoption of IPSASs is the date an entity adopts accrual basis IPSASs for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSASs and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

~~Deemed cost is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.~~ [deleted]

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

...

41A. A first-time adopter shall apply the guidance in IPSAS 46 when measuring assets and/or liabilities.

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Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

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Using Deemed Cost to Measure Assets and/or Liabilities

64. A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:

- (a) Inventory (see IPSAS 12);

- (b) **Investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16;**
 - (ba) **Right-of-use assets (see IPSAS 43);**
 - (c) ~~Property, plant, and equipment (see IPSAS 17);~~ [deleted]
 - (d) **Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:**
 - (i) **The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**
 - (ii) **The criteria in IPSAS 31 for revaluation (including the existence of an active market);**
 - (e) **Financial Instruments (see IPSAS 41); or**
 - (f) **Service concession assets (see IPSAS 32).**
- 64A. A first-time adopter may elect to measure property, plant, and equipment, at deemed cost, being current operational value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets and liabilities is not available. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.
65. Deemed cost can only be determined where the acquisition cost of the asset and/ or the liability is not available. Deemed cost assumes that the entity had initially recognized the asset and/ or the liability at the given date. Subsequent depreciation or amortization is based on that deemed cost on the premise that the acquisition cost is equal to the deemed cost. For example, a first-time adopter may elect to measure property, plant, and equipment at deemed cost at the date of adoption of IPSASs because cost information about the item of property, plant, and equipment was not available on that date, and use current operational value, or fair value as its deemed cost at that date. Any subsequent depreciation is based on the ~~fair value determined~~ measured at that date and starts from the date that the deemed cost has been determined.
66. The use of deemed cost is not considered a revaluation or the application of the ~~fair~~ current value model for subsequent measurement in accordance with other IPSASs.
67. **A first-time adopter may elect to use the revaluation amount of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**
- (a) **Fair value, when the property, plant, and equipment is held for its financial capacity; or**
 - (ab) **Current operational value, when the property, plant, and equipment is held for its operational capacity.**
 - (b) ~~Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.~~ [deleted]

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at fair value, or current operational value, at one particular date because of a specific event:
- (a) If the measurement date is at or before the date of adoption of IPSASs, a first-time adopter may use such event-driven fair value, or current operational value, measurements as deemed cost for IPSASs at the date of that measurement.
 - (b) If the measurement date is after the date of adoption of IPSASs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven fair value, or current operational value, measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.
69. In ~~determining~~ measuring the fair current value in accordance with paragraph 67, the first-time adopter shall apply the definition of fair value, or current operational value, and guidance in ~~other applicable IPSASs~~ IPSAS 46 in determining the fair value of the asset in question. The fair value shall reflect conditions that existed at the date on which it was determined.
70. ~~If reliable market-based evidence of fair observable inputs of current value is are not available for inventory, or investment property that is of a specialized nature, or property, plant, and equipment, a first-time adopter may consider the following other measurement alternatives techniques in determining a deemed cost in accordance with IPSAS 46.:~~
- ~~(a) For inventory, current replacement cost; and~~
 - ~~(b) For investment property of a specialized nature, depreciated replacement cost.~~

Using Deemed Cost to Measure Assets Acquired Through a Non-Exchange Transaction

71. A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its fair value, or for property, plant, and equipment at its current operational value or fair value, when reliable cost information about the asset is not available, and use that fair value as its deemed cost. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

Using Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates (IPSAS 34)

72. Where a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, on the date of adoption of IPSASs, elect to measure that investment at one of the following amounts in its separate opening statement of financial position:
- (a) Cost; or

- (b) **Deemed cost.** The deemed cost of such an investment shall be its fair value (~~determined in accordance with IPSAS 41~~) at the first-time adopter's date of adoption of IPSASs in its separate financial statements.

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IPSAS 43, Leases

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- 96B Notwithstanding the requirements in paragraph 96A, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of adoption of IPSASs for leases that meet the definition of investment property in IPSAS 16 and are measured using the fair current value model in IPSAS 16 from the date of adoption of IPSASs.

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Disclosures

Disclosures where Deemed Cost is Used for Inventory, Investment Property, Property, Plant, and Equipment, Intangible Assets, Financial Instruments or Service Concession Assets

148. **If a first-time adopter uses fair a current value measurement basis, ~~or the alternative in paragraphs 64, 67 or 70~~, as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, financial instruments, or service concession assets, its financial statements shall disclose:**
- (a) **The aggregate of those fair current values ~~or other measurement alternatives~~ that were considered in determining deemed cost;**
 - (b) **The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and**
 - (c) **Whether the deemed cost was determined on the date of adoption of IPSASs or during the period of transition.**

...

Current Value Measurement

- 152A. **An entity shall disclose information that helps users of its financial statements assess the following:**

- (a) **For assets or liabilities that are measured at current operational value or fair value on a non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.**

- 152B. **To meet the objectives in paragraph 152A, an entity shall consider all the following:**

- (a) **The level of detail necessary to satisfy the disclosure requirements;**
- (b) **How much emphasis to place on each of the various requirements;**
- (c) **How much aggregation or disaggregation to undertake; and**

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- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 152A, an entity shall disclose additional information necessary to meet those objectives.

152C. To meet the objectives in paragraph 152A, an entity shall disclose, at a minimum, the following information for each class of assets or liabilities measured at current operational value or fair value (including measurements based on current operational value or fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

- (a) For non-recurring current operational value or fair value measurements, the current operational value or fair value measurement at the end of the reporting period, and the reasons for the measurement. Non-recurring current operational value or fair value measurements of assets or liabilities are those that this Standard requires or permits in the statement of financial position in particular circumstances.
- (b) For non-recurring current operational value or fair value measurements, whether the current operational value or fair value measurements are estimated using observable or unobservable inputs, and the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3), or of the current operational value estimated using unobservable inputs.
- (c) For non-recurring current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity.
- (d) For non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for non-recurring current operational value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period).

152D. An entity shall determine the appropriate disaggregation of assets or liabilities on the basis of the following:

- (a) The nature, characteristics and risks of the assets or liabilities; and

- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the current operational value or fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of assets or liabilities for which disclosures about current operational value or fair value measurements should be provided requires judgment. Assets or liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an asset or a liability, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

152E. For each class of assets or liabilities not measured at current operational value or fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 152C(b), (c) and (d). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using unobservable inputs, required by paragraph 152C(c). For such assets or liabilities, an entity does not need to provide the other disclosures required by this Standard.

152F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

Effective Date

...

154M. **Paragraphs 9, 64–72, 96B, and 148 were amended and paragraphs 41B, 64A, and 152A–152F were added by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Deemed Cost

Deemed Cost for Assets and/or Liabilities

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BC84A. As part of the development of IPSAS 46, *Measurement*, additional guidance on deemed cost was developed. This guidance was developed to clarify the application of deemed cost in practice. Measurement guidance in IPSAS 46 is generic in nature, and was developed to supplement specific guidance in specific IPSAS. The deemed cost guidance in IPSAS 46 was developed to be consistent with the existing guidance in this Standard. However, where specific deemed cost guidance in this Standard exists, it takes precedent over the generic guidance in IPSAS 46.

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Alternative Measurement Bases for Fair Value in Determining Deemed Cost

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BC93. In determining “fair value”, when IPSAS 33 was developed, the guidance in each applicable IPSAS is was considered, where such guidance is was provided. In IPSAS 17 it is was noted that fair value is was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also ~~states~~ stated that if ~~market-based~~ market-based evidence is was not available to measure items of property, plant and equipment, an entity ~~can~~ could estimate fair value using replacement cost, reproduction cost or a service units approach.

BC94. The IPSASB noted that the fair value guidance in IPSAS 16 only ~~considers~~ considered a market-based value, and that limited guidance is was provided in IPSAS 12 in determining fair value. The IPSASB concluded that because a first-time adopter may find it difficult to determine a market-based fair value for all investment properties and all inventories, other measurement alternatives may need to be considered in determining deemed cost for inventory or investment property.

BC94A. The IPSASB has since issued IPSAS 46, which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, which guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the continued use of measurement alternatives was appropriate, and noted that the alternatives included in IPSAS 33 are consistent with measurement techniques available in IPSAS 46 to estimate fair value. The IPSASB agreed to modify the wording of IPSAS 33 accordingly.

BC95. The IPSASB agreed that a first-time adopter may consider the following measurement ~~alternatives~~ techniques in determining a deemed cost if ~~reliable market-based evidence~~ observable inputs of fair value ~~is are~~ are not available on the date of adoption of IPSASs, or on the date that the asset is

recognized and/or measured where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets:

- (a) For inventory, current replacement cost; and
- (b) For investment property of a specialized nature, depreciated replacement cost.

...

Revision of IPSAS 33 as a result of IPSAS 46, Measurement

BC127. IPSAS 46, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets and liabilities, to ensure a consistent approach across all IPSAS. Paragraph 70 of this Standard permits a first-time adopter to consider replacement cost as a measurement alternative to fair value when observable inputs are not available for inventory or investment property. Since IPSAS 46 does not identify replacement cost as measurement bases, the IPSASB consider whether it should be replaced.

BC128. Since replacement cost is retained in IPSAS 12, *Inventories*, and IPSAS 16, *Investment Property*, the IPSASB agreed to retain replacement cost in the context of this Standard to maintain consistency in principles between the specific requirements in individual IPSAS, and the principles on first-time adoption.

BC129. Furthermore, the IPSASB agreed to add current operational value as an alternative measurement basis to fair value for property, plant, and equipment. Current operational value was added to align the principles in this Standard with IPSAS 45, *Property, Plant, and Equipment*, which, as a result of IPSAS 45, permits measuring property, plant, and equipment at current operational value for subsequent measurement.

BC130. IPSAS 46 also provided additional generic guidance on the application of deemed cost. This guidance is consistent with the deemed cost guidance in this Standard (see BC84A).

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Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

...

Deemed Cost

...

Determining a Deemed Cost During the Period of Transition

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IG42. For example, a first-time adopter adopts IPSAS on January 1, 20X1 and adopts the exemption that provides a three-year transitional relief period for the recognition of an investment property. Because the first-time adopter does not have reliable cost information about the historical cost of the investment property on the date of adoption of IPSASs, it decides to determine a deemed cost for the investment property. The deemed cost for the investment property is determined during the second reporting period (i.e., 20X2) in which the first-time adopter applies the exemption. IPSAS 33 allows

the first-time adopter to use the deemed cost determined during 20X2 in recognizing the investment property by adjusting the opening accumulated surplus and deficit on January 1, 20X2. The deemed cost as determined on January 1, 20X2 will be used in determining subsequent depreciation and in assessing impairment where the first-time adopter elects to apply the historical cost model as its subsequent measurement basis in applying IPSAS 16.

...

Amendments to IPSAS 34, Separate Financial Statements

Paragraphs 23A–23H and 32E are added. New text is underlined and deleted text is struck through.

...

Disclosure

...

Current Value Measurement

23A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For investments that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

23B. To meet the objectives in paragraph 23A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 23A, an entity shall disclose additional information necessary to meet those objectives.

23C. To meet the objectives in paragraph 23A, an entity shall disclose, at a minimum, the following information for each class of investments (see paragraph 23D for information on determining appropriate classes of investments) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of investments are those that this Standard

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requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of investments are those that this Standard requires or permits in the statement of financial position in particular circumstances;

- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For investments held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;
- (d) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
- (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized;
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately); and
 - (iv) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investments held at

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the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

- (g) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
- (h) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d); and
 - (ii) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.

23D. An entity shall determine the appropriate disaggregation of investments on the basis of the following:

- (a) The nature, characteristics and risks of the investments; and
- (b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of investments for which disclosures about fair value measurements should be provided requires judgment. Investments will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an investments, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

23E. An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 23C(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into

the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- (a) The date of the event or change in circumstances that caused the transfer;
- (b) The beginning of the reporting period; and
- (c) The end of the reporting period.

23F. If an entity makes an accounting policy decision to use the exception in paragraph IPSAS 41.AG143, it shall disclose that fact.

23G. For each class of investments not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 23C(b), (d) and (h). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 23C(d). For such investments, an entity does not need to provide the other disclosures required by this Standard.

23H. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

Effective Date

...

32E. **Paragraphs 23A–23H were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

...

Amendments to IPSAS 38, Disclosure of Interests in Other Entities

Paragraphs 57A–57F and 61E are added. New text is underlined and deleted text is struck through.

...

Current Value Measurement

57A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For interests in other entities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.**

57B. To meet the objectives in paragraph 57A, an entity shall consider all the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 57A, an entity shall disclose additional information necessary to meet those objectives.

57C. To meet the objectives in paragraph 57A, an entity shall disclose, at a minimum, the following information for each class of interests in other entities (see paragraph 57D for information on determining appropriate classes of interests in other entities) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

- (a) For recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of interests in other entities are those that this Standard requires or permits in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of interests in other entities are those that this Standard requires or permits in the statement of financial position in particular circumstances;
- (b) For recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);
- (c) For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;
- (d) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

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- (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).
 - (e) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those interests in other entities held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
 - (f) For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and
 - (g) For recurring fair value measurements categorized within Level 3 of the fair value hierarchy:
 - (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).
- 57D. An entity shall determine the appropriate disaggregation of interests in other entities on the basis of the following:
- (a) The nature, characteristics and risks of the interests in other entities; and
 - (b) The level of the fair value hierarchy within which the fair value measurement is categorized
- The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of interests in other entities for which disclosures about fair value measurements should be provided requires judgment. Interests in other entities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an interests in other entities, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.
- 57E. For each class of interests in other entities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by

paragraph 57C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 57C(c). For such interests in other entities, an entity does not need to provide the other disclosures required by this Standard.

57F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

...

Effective Date

...

61E. Paragraphs 57A–57F were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

...

Amendments to IPSAS 39, *Employee Benefits*

Paragraphs 8 and 144 are amended and paragraph 176D is added. New text is underlined and deleted text is struck through.

...

Definitions

8. The following terms are used in this Standard with the meanings specified:

...

Definitions Relating to the Net Defined Benefit Liability (Asset)

...

The deficit or surplus is:

- (a) The present value of the defined benefit obligation less
- (b) The fair value (as defined in IPSAS 46, *Measurement*), of plan assets (if any).

...

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

Short-Term Employee Benefits

...

Post-Employment Benefits—Defined Benefit Plans

...

Disclosure

...

Explanation of Amounts in the Financial Statements

...

144. An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in IPSAS 46) and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:

...

Effective Date

...

- 176D. Paragraphs 8 and 144 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

...

Amendments to IPSAS 40, Public Sector Combinations

Paragraph 72 is amended and paragraph 126G is added. New text is underlined and deleted text is struck through.

...

The Acquisition Method of Accounting

...

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

...

Measurement Principle

72. The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values (as defined in IPSAS 46, *Measurement*). Appendix D of IPSAS 46 provides guidance on measuring assets and liabilities at fair value.

...

Effective Date

...

- 126G. Paragraph 72 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 40

...

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of IPSAS 40

...

- IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and equipment using the historical cost model in ~~IPSAS 17~~ IPSAS 45, *Property, Plant, and Equipment*. COB has previously adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model in ~~IPSAS 17~~ IPSAS 45.
- IE168. RE adopts an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

...

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of IPSAS 40

...

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE has adopted an accounting policy of measuring property, plant and equipment using the ~~revaluation~~ current value model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

...

Measurement Period in Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of IPSAS 40

...

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the ~~revaluation~~ current value model for measuring land and buildings, whereas COB’s accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the ~~revaluation~~ current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

...

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40.

IE192. ...

Paragraph reference				
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MEASUREMENT

		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets reorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the <u>revaluation current value</u> model	12,116	17,954	30,070

...

Disclosure Requirements Relating to Acquisitions

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of IPSAS 40.

IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is a public sector entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

...

Paragraph reference

...

124(b) ... owned by TE, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).

The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.

The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying an income approach. The fair value measurement is

based on significant inputs that are not observable in the market, which IPSAS 46, *Measurement*, refers to as Level 3 inputs. Key assumptions include a discount rate range of 20–25 percent and assumed probability-adjusted revenues in XE of CU10,000–20,000.

As of 31 December 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.

...

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 9, 66, AG31, AG38, AG115 and AG117 are amended. Paragraphs AG143A–AG143AB, and 156G are added. Paragraphs 67, 68 and AG144–AG155 are deleted. New text is underlined and deleted text is struck through.

...

Definitions

9. ...

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in either IPSAS 28, ~~or~~ IPSAS 30, *Financial Instruments: Disclosures*, or IPSAS 46, *Measurement*: credit risk⁴, currency risk, fair value, liquidity risk, market risk, equity instrument, financial asset, financial instrument, financial liability and puttable instrument.

...

Measurement

...

Fair Value Measurement Considerations

66. In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, IPSAS 28 or IPSAS 30, an entity shall apply IPSAS 46 and paragraphs AG143A–AG143AB ~~AG144–AG155~~ of Appendix A.
67. ~~The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique~~

⁴ This term (as defined in IPSAS 30) is used in the requirements for presenting the effects of changes in credit risk on liabilities designated as at fair value through surplus or deficit (see paragraph 108).

~~commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. [Deleted]~~

68. ~~The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. [Deleted]~~

...

Effective Date and Transition

Effective Date

...

- 156F. Paragraphs 9, 66, AG31, AG38, AG115 and AG117 were amended, paragraphs AG143A–AG143AB were added, and paragraphs 67, 68 and AG144–AG155 were deleted by IPSAS 46, *Measurement* issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

...

Application Guidance

This Appendix is an integral part of IPSAS 41.

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Recognition and Derecognition

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Transfers that Qualify for Derecognition

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- AG31. ~~When measuring the fair values of the part that continues to be recognized and the part that is derecognized for the purposes of applying paragraph 24, an entity applies the fair value measurement requirements in paragraphs 66–68 and AG144–AG155~~ IPSAS 46 in addition to paragraph 25.

...

Examples

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AG38. ...

	<i>Estimated fair Fair value</i>	<i>Percentage</i>	<i>Allocated carrying amount</i>
Portion transferred	9,090	90 percent	9,000
Portion retained	1,010	10 percent	1,000
Total	10,100		10,000

...

Initial measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

AG115. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG117 and IPSAS 46). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument ~~is estimated, using a valuation technique (see paragraphs AG149–AG154)~~. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset.

...

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

(a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation measurement technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) ...

...

Subsequent Measurement

...

Fair Value Measurement Considerations

Application to Liabilities and an Entity's Own Equity Instruments

General Principles

AG143A. A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g., equity interests issued as consideration in a public sector combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfill the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

AG143B. Even when there is no observable market to provide pricing information about the transfer of a liability or an entity's own equity instrument (e.g., because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (e.g., a government bond or a call option on an entity's shares).

AG143C. In all cases, an entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

Liabilities and Equity Instruments Held by Other Parties as Assets

AG143D. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

AG143E. In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

(a) Using the quoted price in an *active market* for the identical item held by another party as an asset, if that price is available.

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- (b) If that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.
- (c) If the observable prices in (a) and (b) are not available, using another measurement technique, such as
 - (i) An *income approach* (e.g., a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs 45 and C35); and
 - (ii) A *market approach* (e.g., using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs 42, C31 and C32).

AG143F. An entity shall adjust the quoted price of a liability or an entity's own equity instrument held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

- (a) The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (e.g., the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset; and
- (b) The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

Liabilities and Equity Instruments not Held by Other Parties as Assets

AG143G. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a measurement technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

AG143H. For example, when applying a present value technique an entity might take into account either of the following:

- (a) The future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs AG143X–AG143Z); or
- (b) The amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (e.g., having the same credit characteristics) in the

principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

Non-Performance Risk

AG143I. The fair value of a liability reflects the effect of *non-performance risk*. Non-performance risk includes, but may not be limited to, an entity's own credit risk (as defined in IFRS 7 *Financial Instruments: Disclosures*). Non-performance risk is assumed to be the same before and after the transfer of the liability.

AG143J. When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:

(a) Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability); and

(b) The terms of credit enhancements related to the liability, if any.

AG143K. The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (e.g., a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the liability, the issuer would take into account its own credit standing and not that of the third-party guarantor when measuring the fair value of the liability.

Restriction Preventing the Transfer of a Liability or an Entity's Own Equity Instrument

AG143L. When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other *inputs* relating to the existence of a restriction that prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability or an entity's own equity instrument is either implicitly or explicitly included in the other inputs to the fair value measurement.

AG143M. For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

Financial Liability with a Demand Feature

AG143N. The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Application to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk

AG143O. An entity that holds a group of financial assets and financial liabilities is exposed to market risks (as defined in IFRS 7) and to the credit risk (as defined in IFRS 7) of each of the counterparties.

If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this IFRS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e., an asset) for a particular risk exposure or paid to transfer a net short position (i.e., a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

AG143P. An entity is permitted to use the exception in paragraph AG143O only if the entity does all the following:

- (a) Manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;
- (b) Provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in IPSAS 20, *Related Party Disclosures*; and
- (c) Is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.

AG143Q. The exception in paragraph AG143O does not pertain to financial statement presentation. In some cases, the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if an IPSAS does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs AG143T–AG143W) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

AG143R. An entity shall make an accounting policy decision in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* to use the exception in paragraph AG143O. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs AG143T–AG143V) and credit adjustments (see paragraph AG143W), if applicable, consistently from period to period for a particular portfolio.

AG143S. The exception in paragraph AG143O applies only to financial assets, financial liabilities and other contracts within the scope of IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement*, if IPSAS 41 has not yet been adopted). The references to financial assets and financial liabilities in paragraphs AG143O–AG143R and AG143T–AG143W should be read as applying to all contracts within the scope of, and accounted for in accordance with, IPSAS 41 (or IPSAS 29, if IPSAS 41 has not yet been

adopted), regardless of whether they meet the definitions of financial assets or financial liabilities in IPSAS 29, *Financial Instruments: Presentation*.

Exposure to Market Risks

- AG143T. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs AG143AA and AG143BB).
- AG143U. When using the exception in paragraph AG143O, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph AG143O, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.
- AG143V. Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (i.e., years 2–5) on a gross basis.

Exposure to the Credit Risk of a Particular Counterparty

- AG143W. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (e.g., a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Applying Present Value Techniques to Liabilities and an Entity's Own Equity Instruments not Held by Other Parties as Assets (paragraphs AG143G and AG143H)

- AG143X. When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (e.g., a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for

taking on the obligation. Such compensation includes the return that a market participant would require for the following:

- (a) Undertaking the activity (i.e., the value of fulfilling the obligation; e.g., by using resources that could be used for other activities); and
- (b) Assuming the risk associated with the obligation (i.e., a risk premium that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph AG143Z).

AG143Y. For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases, the components of the return that market participants would require will be indistinguishable from one another (e.g., when using the price a third party contractor would charge on a fixed fee basis). In other cases, an entity needs to estimate those components separately (e.g., when using the price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

AG143Z. An entity can include a risk premium in the fair value measurement of a liability or an entity's own equity instrument that is not held by another party as an asset in one of the following ways:

- (a) By adjusting the cash flows (i.e., as an increase in the amount of cash outflows); or
- (b) By adjusting the rate used to discount the future cash flows to their present values (i.e., as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

Inputs to Measurement Techniques

AG143AA. If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (i.e., Level 1, 2 or 3; see paragraphs D59–D89 of IPSAS 46, *Measurement*). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.

AG143AB. IPSAS 46 does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

AG144. ~~Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. However, fair value reflects the credit quality of the instrument. [Deleted]~~

AG145. ~~This Standard uses the terms “bid price” and “asking price” (sometimes referred to as “current offer price”) in the context of quoted market prices, and the term “the bid-ask spread” to include~~

only transaction costs. Other adjustments to arrive at fair value (e.g., for counterparty credit risk) are not included in the term “bid-ask spread.” [Deleted]

Active Market: Quoted Price

- AG146. ~~A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm’s length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the end of the reporting period in that instrument (i.e., without modifying or repackaging the instrument) in the most advantageous active market to which the entity has immediate access. However, the entity adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure the financial asset or financial liability. [Deleted]~~
- AG147. ~~The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. When current bid and asking prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g., a change in the risk-free interest rate following the most recent price quote for a government bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. Similarly, if the entity can demonstrate that the last transaction price is not fair value (e.g., because it reflected the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. The fair value of a portfolio of financial instruments is the product of the number of units of the instrument and its quoted market price. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts. [Deleted]~~
- AG148. ~~If a rate (rather than a price) is quoted in an active market, the entity uses that market quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the entity adjusts for those factors. [Deleted]~~

No Active Market: Valuation Technique

- AG149. ~~If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the~~

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- instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. [Deleted]
- AG150. ~~The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if (a) it reasonably reflects how the market could be expected to price the instrument and (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. [Deleted]~~
- AG151. ~~Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased. [Deleted]~~
- AG152. ~~The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (i.e., similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. If conditions have changed since the most recent market transaction, the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued. [Deleted]~~
- AG153. ~~The same information may not be available at each measurement date. For example, at the date that an entity makes a loan or acquires a debt instrument that is not actively traded, the entity has a transaction price that is also a market price. However, no new transaction information may be available at the next measurement date and, although the entity can determine the general level of market interest rates, it may not know what level of credit or other risk market participants would consider in pricing the instrument on that date. An entity may not have information from recent transactions to determine the appropriate credit spread over the basic interest rate to use in determining a discount rate for a present value computation. It would be reasonable to assume, in the absence of evidence to the contrary, that no changes have taken place in the spread that existed at the date the loan was made. However, the entity would be expected to make reasonable efforts to determine whether there is evidence that there has~~

~~been a change in such factors. When evidence of a change exists, the entity would consider the effects of the change in determining the fair value of the financial instrument. [Deleted]~~

- AG154. ~~In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made. [Deleted]~~

~~Inputs to Valuation Techniques~~

- AG155. ~~An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others).~~

- ~~(a) The time value of money (i.e., interest at the basic or risk-free rate). Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, an entity may use a well-accepted and readily observable general market rate, such as a swap rate, as the benchmark rate. (If the rate used is not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is determined on the basis of its credit risk in relation to the credit risk in this benchmark rate). In some countries, the central government's bonds may carry a significant credit risk and may not provide a stable benchmark basic interest rate for instruments denominated in that currency. Some entities in these countries may have a better credit standing and a lower borrowing rate than the central government. In such a case, basic interest rates may be more appropriately determined by reference to interest rates for the highest rated corporate bonds issued in the currency of that jurisdiction.~~
- ~~(b) Credit risk. The effect on fair value of credit risk (i.e., the premium over the basic interest rate for credit risk) may be derived from observable market prices for traded instruments of different credit quality or from observable interest rates charged by lenders for loans of various credit ratings.~~
- ~~(c) Foreign currency exchange prices. Active currency exchange markets exist for most major currencies, and prices are quoted daily in financial publications.~~
- ~~(d) Commodity prices. There are observable market prices for many commodities.~~
- ~~(e) Equity prices. Prices (and indexes of prices) of traded equity instruments are readily observable in some markets. Present value based techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.~~
- ~~(f) Volatility (i.e., magnitude of future changes in price of the financial instrument or other item). Measures of the volatility of actively traded items can normally be reasonably estimated on the basis of historical market data or by using volatilities implied in current market prices.~~

- (g) ~~Prepayment risk and surrender risk. Expected prepayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data. (The fair value of a financial liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount — see paragraph 68).~~
- (h) ~~Servicing costs for a financial asset or a financial liability. Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial asset or financial liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables. [Deleted]~~

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Basis for Conclusions

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Revision of IPSAS 41 as a result of IPSAS 46, *Measurement*

BC53. The IPSASB issued IPSAS 46, *Measurement*, in May 2023. That Standard provides guidance on measuring assets and liabilities at fair value, which is relevant to the measuring financial instruments. Guidance specific to applying fair value to the measurement of financial instruments was added as application guidance (see paragraphs AG143A–AG143AB).

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Amendments to IPSAS 42, *Social Benefits*

Paragraphs 12 and AG17 are amended. Paragraph 35B is added. New text is underlined and deleted text is struck through.

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General Approach

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Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

12. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability. IPSAS 46, *Measurement*, provides guidance on measuring liabilities at cost of fulfillment.**

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Effective Date

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- 35B. Paragraphs 12 and AG17 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Application Guidance

This Appendix is an integral part of IPSAS 42.

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General Approach (see paragraphs 6–21)

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Measurement of a Liability for a Social Benefit Scheme

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- AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. IPSAS 14, *Events After the Reporting Date*, and Appendix C of IPSAS 46, *Measurement*, provides guidance on using this information.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 42.

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Revision of IPSAS 42 as a result of IPSAS 46, *Measurement*

- BC168. The IPSASB issued IPSAS 46, *Measurement*, in May 2023. That Standard provides guidance on measuring liabilities at the cost of fulfillment, which is relevant to measuring the liability for social benefits under the general approach. That guidance includes a requirement that a risk adjustment is considered in estimating the cost of fulfillment. Generally, this is not expected to affect the measurement of the liability under the general approach given the short-term nature of most social benefit liabilities.

- BC169. While the guidance on measuring liabilities at cost of fulfillment is not expected to change the measurement of liabilities for social benefits under the general approach in the majority of cases, the IPSASB agreed to amend Illustrative Examples 9 and 10 to avoid references to using

information about payments made after the reporting date, which might conflict with the guidance in IPSAS 46. The IPSASB noted that the provisions in other IPSAS regarding materiality would allow entities to use information about payments made after the reporting date where the effect of doing so was not materially different from using estimates made at the reporting date.

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Illustrative Examples

These examples accompany, but are not part of, IPSAS 42

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General Approach: Recognition and Measurement

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Example 9

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- IE37. In this example, it is assumed that there is no difference between the estimates Government I has complete information at the date it pays retirement pensions used in recognizing the liability and the actual amount of pensions paid. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).
- IE38. On ~~January 31, 20X9~~ December 31, 20X8, Government I ~~pays~~ recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Government I estimates that, on January 31, 20X9, it will pay retirement pensions totaling CU3,053,576. There are three elements to this ~~payment estimate as follows:~~

	CU
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

- IE39. ~~As at December 31, 20X8, Government I recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Government I uses the information available at that time to prepare its financial statements. [Deleted]~~
- IE40. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions that will be paid to those pensioners eligible at December 31, 20X8 and who are estimated to remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions that will be paid

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to those pensioners eligible at December 31 who ~~died~~ are estimated to die during January 20X9 (CU36,420). The liability does not include the pro-rated pensions that will be paid to those who ~~reach~~ are estimated to reach retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

- IE41. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	CU
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and <u>estimated to remaining</u> eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who <u>are estimated to died</u> during January 20X9 (recognized in December 20X8)	36,420
Total	36,485,544

Example 10

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- IE46. In this example, it is assumed that there is no difference between the estimates State Government J used in recognizing the liability and the actual amount of has complete information at the date it ~~pays~~ unemployment benefits paid. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).
- IE47. On ~~July 15, 20X2~~ June 30, 20X2, State Government J ~~pays~~ recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. State Government J estimates that, on July 15, 20X2, it will pay unemployment benefits totaling CU132,952. There are four elements to this ~~payment~~ estimate as follows:

	CU
Unemployment benefits <u>to be</u> paid to unemployed persons eligible at June 15, 20X2 and <u>are estimated to remaining</u> eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits <u>to be</u> paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had <u>was estimated to come to an end by</u> July 15, 20X2	9,975
Pro-rated unemployment benefits <u>to be</u> paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045

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	CU
Pro-rated unemployment benefits <u>to be</u> paid to those unemployed persons who <u>were estimated to become</u> became eligible between July 1, 20X2 and July 15, 20X2	4,812
Total	132,952
<p>IE48. As at June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government J uses the information available at that time to prepare its financial statements. [Deleted]</p>	
<p>IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:</p> <p>(a) The unemployment benefits <u>that will be</u> paid to those unemployed persons eligible at June 15, 20X2 and <u>who are estimated to remaining</u> eligible at July 15, 20X2 (CU113,120);</p> <p>(b) The pro-rated unemployment benefits <u>that will be</u> paid to those unemployed persons eligible at June 15, 20X2 whose eligibility <u>is estimated to had</u> come to an end by July 15, 20X2 (CU9,975); and</p> <p>(c) The pro-rated unemployment benefits <u>that will be</u> paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).</p>	
<p>IE50. The liability does not include the pro-rated unemployment benefits <u>that will be</u> paid to those who <u>are estimated to become</u> became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.</p>	
<p>IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:</p>	
	CU
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits <u>estimated to be</u> paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those <u>estimated to remaining</u> eligible and those whose eligibility had <u>is estimated to</u> come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	128,140
	1,714,949

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Amendments to IPSAS 43, *Leases*

Paragraphs 35 and 113 are amended. Paragraph 103C is added. New text is underlined and deleted text is struck through.

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Lessee

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Measurement

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Other Measurement Models

35. If a lessee applies the fair value measurement basis in the current value model in IPSAS 16, *Investment Property* to its investment property, the lessee shall also apply that fair value ~~model~~ measurement basis to right-of-use assets that meet the definition of investment property in IPSAS 16.

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Transition

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Lessees

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Leases Previously Classified as Operating Leases

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113. Notwithstanding the requirements in paragraph 112, for leases previously classified as operating leases applying IPSAS 13, a lessee:
- (a) Is not required to make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9) that will be accounted for applying paragraph 7. The lessee shall account for those leases applying this Standard from the date of initial application.
 - (b) Is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16. 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.
 - (c) Shall measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases applying IPSAS 13 and that will be accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16 from the date of initial application. 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.

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Effective Date and Transition

Effective Date

103C. Paragraphs 35 and 113 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43.

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Revision of IPSAS 43 as a result of IPSAS 46, *Measurement*

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IPSAS 43, *Leases*

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Fair Value

BC64. In developing ED 75, the IPSASB had considered whether to retain the fair value definition consistent with IFRS 16 and IPSAS 13 or to include the fair value definition consistent with ~~ED 77~~ IPSAS 46, *Measurement*.

BC65. The IPSASB had noted that including the fair value definition consistent with ~~ED 77~~ IPSAS 46 might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback transactions.

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Responses to ED 75, *Leases*

BC67. While the majority of respondents agreed with the ED 75 proposals, some respondents disagreed with the retention of the fair value definition from IFRS 16, *Leases* and IPSAS 13, *Leases* in ED 75 because:

- (a) Of the possible confusion for users and preparers of having two different fair value definitions in IPSASB's literature;
- (b) Sale and leaseback transactions (where the definition of fair value is used) occur infrequently in the public sector;
- (c) Of the benefits of the consistent use of terminology in IPSASB literature; and

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- (d) Most countries are still in the process of implementing IPSAS and, therefore, the change to the ~~ED-77~~ IPSAS 46 fair value definition would not cause significant change for their accounting system.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 46.

Introduction

The Purpose of Measurement in Public Sector Financial Statements

- BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities and related revenues and expenditures that users need for accountability and decision making. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as:
- (a) Whether the entity provided its services to constituents in an efficient and effective manner;
 - (b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
 - (c) To what extent the burden on future-year taxpayers of paying for current services has changed; and
 - (d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

Service Delivery Objective and Public Sector Assets and Liabilities

- BC2. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. 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. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, in the public sector the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities are specialized—for example, roads and military assets. There may be a limited market for specialized assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.
- BC3. Another common feature of public sector assets is that they are held to achieve policy objectives, such as service delivery, which need to be taken into account when measurement aims to derive a value that reflects existing use.
- BC4. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.
- BC5. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by

disasters. In addition, many governments have obligations that arise from monetary activities such as currency in circulation.

Measurement of Assets and Liabilities for Financial Reporting by Public Sector Entities

- BC6. Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In developing Chapter 7, the IPSASB took into account the special characteristics of the public sector, the needs of users, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.
- BC7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.
- BC8. The objective of measurement and the measurement bases in Chapter 7 of the Conceptual Framework address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows.
- BC9. The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

Relationship Between IPSAS 46, Measurement and Other IPSAS

- BC10. During the development of this Standard, the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one IPSAS, in order to provide a comprehensive "one stop shop". However, the IPSASB decided:
- (a) Other IPSAS should identify which measurement basis should be applied and any specific measurement requirements relating to the assets or liabilities covered by the IPSAS, and address impairment, depreciation, and amortization.
 - (b) IPSAS 46 should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework. For example, IPSAS 45, *Property, Plant, and Equipment*, allows property, plant, and equipment measured at historical cost, current operational value, or fair value. The application guidance for these measurement bases is located in this Standard.

The objective of this Standard is to support consistent application of measurement bases referred to in other IPSAS.

- BC11. The IPSASB decided to develop appendices for the following four measurement bases: historical cost basis, current operational value basis, cost of fulfillment basis, and fair value basis because the greater need for guidance relates to these four measurement bases.

Objective (paragraph 1)

- BC12. The Standard's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which measurement bases should

be used in IPSAS. This Standard refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.

Structure of Measurement Standard

- BC13. One objective of the measurement project is to provide detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used.
- BC14. In order to satisfy this objective, the IPSASB agreed core text should define key terms and provide generic principles for measurement bases and techniques while the appendices would expand on principles for measurement bases and outline how measurement techniques are applied when estimating the value of an asset or liability measured by a specific measurement basis.
- BC15. The IPSASB concluded this structure is appropriate because:
- (a) Core text stands alone. Including principle level guidance for measurement bases and measurement techniques in the core text allows it to be read and applied independently of the appendices.
 - (b) Minimal duplication. The most significant challenge to overcome in structuring the material was to reduce the duplication of measurement technique guidance between the core text and the appendices, and within the appendices. This was a challenge because some measurement techniques can be applied to more than one measurement basis. The structure of the Standard allows for key measurement techniques and principles to be included once in the core text, and application of those principles to each measurement basis to be included in the appropriate appendix.

Scope and Definitions (paragraphs 2–6)

- BC16. The Standard's scope conveys the definitions of measurement bases and the related appendices apply when another IPSAS requires measurement using one of the defined measurement bases. As part of its scoping decision, the IPSASB considered whether the Standard should include guidance on the measurement of assets held for sale. The IPSASB noted that the issues relating to the measurement of assets held for sale are similar to those relating to the measurement of impaired assets, which is outside the scope of the project. Therefore, the IPSASB decided that the measurement of assets held for sale should also be excluded and issued a separate IPSAS (IPSAS 44, *Non-Current Assets Held for Sale and Discontinued Operations*).

Initial Measurement (paragraphs 7–16)

- BC17. The IPSASB discussed the applicability of the subsequent measurement framework to initial and subsequent measurement. Unless otherwise required or permitted by another IPSAS, the IPSASB concluded measurement bases identified in the subsequent measurement framework are applicable to initial measurement at deemed cost when the transaction price does not faithfully present relevant information about the entity in a manner that is useful in holding the entity accountable, and for decision-making purposes.
- BC18. On the transaction date an asset or liability is initially measured at its transaction price, plus or minus transaction costs, or, as noted in paragraph BC17, at a deemed cost. This approach is applied regardless of whether the current value model or historical cost model is subsequently applied when measuring assets and liabilities in the financial statements.

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- BC19. A transaction price is applied, where appropriate, because transactions occurring in orderly markets are negotiated between parties at arm's length and are presumed to faithfully present the economics of the transaction. The transaction price is therefore useful for decision-making purposes and to the users of the financial information to hold decision-makers to account. Where transaction price is not appropriate, a deemed cost is calculated using a current value measurement basis to approximate the value of the asset or liability on the transaction date.
- BC20. After measurement on the transaction date the entity makes an accounting policy choice, where permitted, to apply a historical cost model or current value model to reflect the measurement objective of the item being measured.

Deemed Cost

- BC21. With the development of current operational value for assets held for operational capacity, the IPSASB decided deemed cost should be an amount used as a surrogate for transaction price. The definition of deemed cost in IPSAS 33, *First-Time Adoption of Accruals Basis International Public Sector Accounting Standards (IPSASs)*, was replaced to reflect the IPSASB's decision and allows for initial measurement of property, plant, and equipment transactions where the transaction price does not faithfully present relevant information to be measured at current operational value, in addition to fair value.
- BC22. The IPSASB concluded the usefulness of information that current operational value provides financial statement users in subsequent measurement for property, plant, and equipment, held for their operational capacity also applies at initial measurement.
- BC23. The IPSASB concluded that:
- (a) Fair value faithfully represents the value the public sector entity accrues as a result of the transaction when the property, plant, and equipment, is held for its financial capacity; and
 - (b) Current operational value faithfully represents the value of the property, plant, and equipment, to the public sector entity when the transaction occurs for assets held for their operational capacity.

Amendments to Other IPSAS

- BC24. The initial measurement guidance developed in this Standard, is principles-based and broadly applicable across the IPSAS suite of standards. When making amendments to other IPSAS as a result of IPSAS 46, the IPSASB agreed the initial measurement requirements in individual IPSAS would not be replaced by the initial measurement principles in IPSAS 46. The IPSASB concluded the more specific initial measurement guidance in specific IPSAS continues to be relevant and therefore should be retained.

Subsequent Measurement (paragraphs 17–53)

Use of the Historical Cost Model or Current Value Model

- BC25. The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB considered the options for measurement subsequent to initial recognition in existing IPSAS with a view to eliminating or reducing those options.
- BC26. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).

- BC27. The Conceptual Framework states that it is not possible to identify a single measurement model that best meets the measurement objective and acknowledges both historical cost and current value measurements models.
- BC28. The IPSASB concluded that:
- (a) Where an accounting policy choice exists in an IPSAS to measure using the historical cost model or current value model, it would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and
 - (b) Such a step would be outside the scope of this Standard, which is to provide requirements and guidance on the definitions and application of measurement bases (i.e., what is meant by each measurement basis and how to derive measurement bases), rather than to specify where they should be used. The latter is a decision for individual standards.
- BC29. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Exposure Draft on the Conceptual Framework and the Exposure Draft on Measurement advocated the continued widespread use of the historical cost basis, mostly in combination with other measurement bases. Supporters of historical cost referenced the accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.
- BC30. Conversely, those who supported current values linked this view to both decision making and accountability, arguing that the cost of service provision should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price.

Determining the Measurement Model

- BC31. Some respondents to the Measurement Exposure Draft recommended guidance be developed explaining how to determine the appropriate measurement model. The IPSASB agreed clarifications would support the consistent application of the guidance and developed Implementation Guidance to expand on the accounting policy choice.
- BC32. The IPSASB noted the historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:
- (a) A more senior level of government for all entities in a sector or jurisdiction; or
 - (b) An applicable regulatory framework in the sector or jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity considers the information it believes best meets the qualitative characteristics.

- BC33. In selecting the appropriate measurement model, the reporting entity should consider whether it wants its asset or liability to reflect the value of the transaction at the date of initial recognition or the current value of the same transaction on the date of measurement.

Historical Cost (Appendix A)

Measurement Techniques

- BC34. The IPSASB agreed initial measurement of an asset or a liability should be at its transaction price, adjusted for transaction costs, or deemed cost. Historical cost is the consideration given to acquire, construct, or develop an asset, plus transaction costs, or the consideration received to assume a

liability, minus transaction costs, at the time of the asset's acquisition, construction, or development, or when the liability is incurred.

- BC35. Since the measurement framework applies only to subsequent measurement, no measurement techniques apply to the historical cost basis. This is because after initial measurement, the gross carrying amount of an asset or liability measured at the historical cost basis remains unaffected by changes in the underlying current market conditions (i.e., no measurement techniques are applied).

Financial Instruments Measured at Historical Cost

Amortized Cost

- BC36. The amortized cost of a financial asset or financial liability reflects estimates of future cash flows discounted at a rate that is not updated after initial recognition. For loans given or received, if interest is receivable or payable regularly, the amortized cost of the loan typically approximates the amount originally paid or received. Therefore, the amortized cost of a financial asset or liability is considered to be a form of the historical cost basis.

Current Operational Value (Appendix B)

- BC37. Most responses to the April 2019 Measurement Consultation Paper agreed with the IPSASB's preliminary view that fair value is relevant and applicable in measuring some assets and liabilities in the public sector. Constituents' concerns with fair value related to the fact that when an item is held for its operational capacity, as is often the case in the public sector, fair value is difficult and inappropriate to apply because the following concepts generally are not applicable:

- (a) Highest and best use; and
- (b) Maximizing the use of market participant data.

- BC38. While respondents agreed the fair value definition proposed is applicable in some circumstances, they also noted the definition is unlikely to be appropriate as a current value measurement basis in most cases. Respondents expressed the view that a public sector specific measurement is required.

- BC39. The IPSASB agreed with respondents' views and developed a current value measurement basis unique to the public sector. Given fair value is applied to items held for their financial capacity, this basis was developed specifically for assets held for their operational capacity.

- BC40. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. Holding an asset to meet a policy objective often results in an asset being held in a capacity other than one that satisfies its highest and best financial use. For example, an entity may have a policy objective to provide medical services to citizens of a city center. While operating a building the entity owns as a hospital may not be in the best financial interests of the entity, it does satisfy the policy objective.

- BC41. The IPSASB agreed that, when an asset is held for its operational capacity, the most relevant information to the users of financial information is the current value of the asset in its existing use. This provides users with useful information in the public sector:

- (a) In the statement of financial position, it reflects the amount an entity would pay at the measurement date for the remaining service potential of its existing assets.

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- (b) In the statement of financial performance, the consumption of the asset, through depreciation, reflects the amount the entity would incur during the period to provide the service at the prevailing prices when an asset is measured. This differs from the historical cost basis, which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired, constructed, or developed.

Developing a Public Sector Specific Measurement Basis

- BC42. In responding to comments received to the April 2019 Measurement Consultation Paper, the IPSASB developed a new measurement basis that addressed the challenges in measuring most public sector assets. Specifically, the measurement basis considered how to present assets held for their operational capacity in the financial statements that provided users of those reports with relevant and useful information.
- BC43. The Measurement Exposure Draft, issued in April 2021, defined current operational value as the value of an asset used to achieve the entity's service delivery objectives at the measurement date. The Exposure Draft clarified the definition by proposing several key principles that were relevant for a public sector measurement basis. These principles included:
- (a) Current asset;
 - (b) Current use of the asset;
 - (c) Current location of the asset;
 - (d) Service policy objective of the asset;
 - (e) Entry price;
 - (f) Least costly manner;
 - (g) Current market conditions;
 - (h) Use of observable inputs; and
 - (i) Entity-specific valuation.
- BC44. The Exposure Draft included an Alternative View proposed by two members of the IPSASB. The Alternative View disagreed with the proposal in the Exposure Draft as follows:
- (a) The income approach is not appropriate as a measurement technique for current operational value;
 - (b) The lack of clarity about the accounting for surplus capacity;
 - (c) The proposed definition of current operational value could permit either entry or exit values; and
 - (d) The lack of clarity in the proposed definition of current operational value risks not achieving the qualitative characteristics of financial reporting.
- BC45. In responding to the Exposure Draft, stakeholders were clear a public sector measurement basis was necessary. Respondents strongly supported the inclusion of fair value, aligned with IFRS 13, but echoed responses to the Consultation Paper, that fair value would not provide financial statement users with relevant and useful information for assets held for their service capacity. While there was support for current operational value, respondents indicated further clarification on its application in practice was necessary.

- BC46. In responding to stakeholder comments, the IPSASB updated current operational value by:
- (a) Removing the income approach as a separate measurement technique for current operational value. The IPSASB agreed it is unlikely discounting future cash flows, whether inflows or outflows, would be relevant in determining the amount an entity would pay for the remaining service potential of an asset.
 - (b) Clarifying when unused capacity is included in current operational value by developing implementation guidance, including a decision tree and examples.
 - (c) Revising the definition of current operational value to the amount an entity would pay for the remaining service potential of an asset at the measurement date. This clarified current operational value is an entry price and gave those applying the measurement basis a clearer understanding of the basis.
- BC47. Finally, in developing the current operational value for this Standard, the IPSASB revisited each principle proposed in the Exposure Draft. The IPSASB reaffirmed each principle was necessary to present relevant and useful information regarding assets held for their operational capacity. The IPSASB also clarified each principle to enhance understandability and facilitate application in practice. The following principles are applicable to current operational value:
- (a) Existing asset;
 - (b) Existing use;
 - (c) Existing location;
 - (d) Remaining service potential;
 - (e) Entry price;
 - (f) Least costly manner;
 - (g) Current market conditions;
 - (h) Use of observable inputs; and
 - (i) Entity-specific valuation.

Current Operational Value – Amount the Entity Would Pay

- BC48. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. A strong indication of the value of the operational capacity of an asset is the amount the entity would pay for the remaining service potential of the asset to achieve its policy objective. The IPSASB decided current operational value should reflect this concept by estimating the amount that would be paid for the remaining service potential of an asset (i.e., an entry price) rather than using an exit price (i.e., the amount that could be received to sell the asset), which does not necessarily reflect the amount that would be paid for the remaining service potential of an asset.
- BC49. Estimating the amount that would be paid for the remaining service potential of an asset (i.e., the entry price) requires an entity to determine the price that would be paid to acquire that asset in an exchange transaction. The IPSASB decided estimating the price that would be paid to acquire the asset in an exchange transaction remained relevant, even in circumstances where the asset being measured is acquired through a non-exchange transaction. For an estimate to provide relevant and reliable information it should be based on assumptions that can be verified and duplicated by the user of the information. Assuming the asset is acquired, constructed, or developed, in an exchange

transaction enables the entity to present useful information allowing the user to observe the amount an entity would pay for the remaining service potential of the asset.

Current Operational Value – Existing Asset

- BC50. During the development of this Standard, the IPSASB discussed alternative approaches to capture the value of public sector assets. Based on some responses to the Exposure Draft, the IPSASB considered whether measuring the asset based on the value of the service or benefits the asset provides results in useful and relevant information when presenting an asset held for its operational capacity – i.e., to deliver direct services to the public, and/or to provide a wider community benefit.
- BC51. The IPSASB rejected the idea of measuring public sector assets based on the value of services or benefits they provide because:
- (a) It is inconsistent with how all other non-financial assets are measured on the statement of financial position;
 - (b) The IPSASB agreed that a public sector measurement basis that values the asset by valuing the services delivered to the public, or the wider community benefits to the public, would result in the asset recognition criteria not being satisfied, as there is no well-established method in practice to derive such a valuation in a relevant and reliable way.
- BC52. The IPSASB agreed that the public sector measurement basis is based on the value of the physical items that comprise the asset. For example, a public sector entity provides a service for passenger vehicles to cross a water way. The service is currently being delivered with a tunnel. A current operational value measurement estimates the amount an entity would pay for the remaining service potential of the asset. In this example, the tunnel. Current operational value does not measure the value of the service and, by extension, alternative assets (such as a bridge or ferry service) that could also provide the same service.

Current Operational Value – Existing Use

- BC53. An asset supports an entity in achieving its policy objectives in its existing use. Existing use is the current way an asset or group of assets is used. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. This approach reflects the economic position of the entity, rather than the position prevailing in a hypothetical market.
- BC54. The IPSASB agreed the concept of existing use is core to current operational value. The IPSASB agreed with responses to its Exposure Draft that fair value does not present relevant measurement information for assets held for their service capacity because fair value requires assets to be measured at their 'highest and best use'. A public-sector-specific measurement basis must measure assets as they are currently being used to meet the entity's policy objectives. This measurement will provide users of the entity's financial information with the value of the asset to the entity as it is currently being used.

Current Operational Value – Existing Location of the Asset

- BC55. The IPSASB noted that, in carrying out a valuation under the cost approach, valuation professionals would consider the cost of a site suitable for the delivery of the service delivery objectives from a modern equivalent asset. This might be a site of a similar size and in a similar location to the actual site. Where the actual site would no longer be considered appropriate because, for example, the service would be delivered more efficiently or effectively from another location, a hypothetical site

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in an appropriate location would be used as the basis for the land valuation, subject to discussion and agreement with the entity.

- BC56. Despite this, the IPSASB agreed that a valuation based on an alternative site would not achieve the objective of a current operational value measurement because it would not provide a value of the existing asset in its existing use. This is because delivering the service from another location is unlikely to be in the public interest, given that the location where the asset is currently situated was selected for service delivery needs. Relocating the asset to another location is a separate, future policy decision that should not be taken into consideration when measuring the asset. Current operational value valuations should be based on delivering the entity's goods and/or services from the existing location.
- BC57. The IPSASB noted that measuring land held for its operational capacity at its existing location, total capacity and actual size may result in a valuation that is similar to a market participant valuation, or fair value.

Current Operational Value – Measurement Techniques

- BC58. To support the application of current operational value, the IPSASB agreed the market approach and the cost approach reflect the attributes of the measurement basis and can be applied in estimating the value of the asset when measured at current operational value. No hierarchy was developed to select the measurement technique. The IPSASB agreed the selection of the measurement technique that approximates the value of the asset under current operational value should be based on judgment. In most cases the IPSASB believes the selection should be straightforward as the measurement technique is generally selected based on the data available to the entity measuring the asset.
- BC59. For example, an active market for an identical asset may exist for certain types of assets. In these circumstances applying the market approach is likely to be a straightforward valuation. As the asset becomes more specialized, the existence of an active market likely decreases. In these circumstances the cost approach is relevant.
- BC60. The IPSASB agreed the income approach is not an appropriate measurement technique when estimating the value of the asset when measured at current operational value. Given public sector assets often generate little to no cash flows, and generally cash flows are insufficient to cover operating expenses, the IPSASB concluded discounting future income streams would be impracticable. Furthermore, given the nature of current operational value, the income approach would not be applied in conjunction with another measurement technique because discounting future cash flows is not necessary given the market approach assumes pricing for the asset is available on the measurement date, and the cost approach assumes the production or development of the asset is immediate.

Use of Current Operational Value throughout IPSAS

- BC61. A review of existing IPSAS was performed to determine whether the public sector specific measurement basis, current operational value, should be added to, or replace, existing measurement bases in each IPSAS.
- BC62. The IPSASB agreed current operational value should be available to estimate the value of property, plant, and equipment within the scope of IPSAS 45. The IPSASB added current operational value to historical cost and fair value as measurement bases available to estimate property, plant, and

equipment because many items of property, plant, and equipment are held for their operational capacity in the public sector, which may not be accurately represented when applying fair value.

BC63. The IPSASB identified other instances where current operational value may be appropriate throughout its literature. However, the IPSASB agreed any additional changes to measurement bases are best made through projects specific to the IPSAS in question to allow stakeholders to focus on the impact of the proposal. The IPSASB did not propose current operational value be added to any other IPSAS when this Standard was issued.

Cost of Fulfillment (Appendix C)

BC64. In developing Cost of Fulfillment, the IPSASB considered concepts applied by the IASB related to Fulfillment Value. Both measurement bases share many characteristics. However, one key difference between the bases is fulfillment value requires a risk premium be included when measuring a liability. A risk premium, also known as a risk adjustment or risk margin, is the price for bearing the uncertainty inherent in the cash flows.

BC65. In developing its April 2019 Measurement Consultation Paper, the IPSASB proposed including the requirement to include a risk premium when measuring liabilities using the Cost of Fulfillment measurement basis. Respondents challenged the rationale and questioned the need for a risk premium in the public sector. Respondents:

- (a) Questioned whether the risk premium provides faithfully representative and relevant information to users about the extent of the entity's liabilities to be settled in the future;
- (b) Noted it does not reflect the least costly manner to fulfill the liability; and
- (c) Expressed the view that a risk premium reflects a bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.

BC66. The IPSASB agreed concerns raised by stakeholders could apply in some circumstances and agreed that an assessment as to whether to include a risk premium in the valuation of a liability was specific guidance that should be provided on a standard-by-standard basis.

Fair Value (Appendix D)

BC67. During the development of this Standard, the IPSASB considered whether the fair value measurement basis was relevant to measuring assets and liabilities held by public sector entities. The IPSASB concluded that:

- (a) There are assets and liabilities held by public sector entities that should be measured at fair value; and,
- (b) The term "fair value" should have the same meaning as that established by IFRS 13, *Fair Value Measurement*.

BC68. In reaching these two conclusions the IPSASB noted that there were references to fair value throughout IPSAS. However, the definition of fair value in the initial suite of IPSAS was derived from a pre-IFRS 13 definition. IFRS 13 defines fair value as an exit value, as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

BC69. The IPSASB's 2014 Conceptual Framework did not include fair value in its list of measurement bases because the IPSASB considered that the IFRS 13 meaning of fair value would not be

appropriate for many public sector assets and liabilities, because it is an exit value. However, during the development of this Standard, the IPSASB's work on financial instruments has demonstrated that an exit-based definition of fair value is relevant for many financial instruments and more generally assets held for financial capacity rather than operational capacity.

- BC70. The IPSASB decided that if the term "fair value" continues to be used in IPSAS, the same meaning as that in IFRS 13 should apply. This avoids confusion and supports good quality measurement, when using this measurement basis.
- BC71. In June 2018 the IPSASB approved IPSAS 41, *Financial Instruments*, which is an IFRS-aligned IPSAS. IPSAS 41 identifies fair value as a measurement basis applicable to financial instruments. The IPSASB had already decided, in September 2017, that the Measurement project should allow for measurement at fair value, with the issue being one of how to integrate the IFRS 13 definition of fair value into IPSAS. The IPSASB decided that IPSAS 46 should include the majority of IFRS 13 text to ensure that its definition of fair value would be consistent with that in IFRS 13, and adequately support IPSAS 41's requirements with respect to measurement of financial instruments at fair value. On that basis the Standard's fair value appendix, Appendix D, has reproduced the majority of IFRS 13 text and aims to ensure that the Standard's definition of fair value is the same as that established in IFRS 13.

Use of Fair Value throughout IPSAS

- BC72. A review of existing IPSAS was performed to determine whether the updated fair value was applicable in IPSAS where the legacy "fair value" definition was applied. The IPSASB considered the components of the IFRS 13 definition of fair value to identify the key indicator or indicators of the appropriateness of fair value. The IPSASB concluded that the exit versus entry distinction is not useful in selecting measurement bases (see BC7.19–BC7.22 of the IPSASB Conceptual Framework). The IPSASB noted that some jurisdictions considered the specialized versus non-specialized distinction to be useful in considering whether fair value is an appropriate measurement basis. The IPSASB concluded that while the specialization of an asset is a useful distinction, it is not a clear determinant when assessing the appropriateness of fair value. Rather, the IPSASB agreed that an entity's intent to hold the asset or liability for either financial or operational capacity is the clearest indicator. The IPSASB concluded that fair value is an appropriate measurement basis when the asset is held, or the liability incurred, primarily for its financial capacity.
- BC73. The IPSASB also cautioned against a "blanket approach" of fair value appropriateness by Standard, as there may be instances where the use of fair value appropriateness may differ by reporting entity in a consolidation, or where a cash-generating or non-cash-generating asset may have hybrid measurement objectives. It is important to consider transaction-specific and entity-specific considerations within each IPSAS when selecting measurement bases.
- BC74. In cases where assets held for operational capacity and assets held for financial capacity are within the scope of the same IPSAS, an entity should exercise professional judgment, consider entity- and transaction-specific factors, and apply accounting principles in existing IPSAS. The primary measurement objective, and in turn the measurement basis, is determined for each individual asset or class of assets (i.e., assets with similar nature and use to an entity's operations within the same IPSAS). The IPSASB concluded that accounting principles to guide an entity to group assets of similar nature and determine the intended primary objective are sufficiently illustrated in existing IPSAS guidance.

BC75. The IPSASB concluded that the need for consequential amendments will be decided on a case-by-case basis in accordance with IPSAS 46. In performing this analysis, the IPSASB reviewed each IPSAS and decided to retain the term fair value throughout IPSAS and apply this Standard's definition except for:

- (a) IPSAS 43, *Leases*,⁵ where the term and existing fair value definition in IPSAS 43 are retained;
- (b) IPSAS 21, *Impairment of Non-Cash-Generating Assets*, where the term and existing fair value definition in IPSAS 21 are retained; and
- (c) IPSAS 32, *Service Concession Arrangements: Grantor*, where the term and existing fair value definition in IPSAS 32 are retained.

In each instance where the term and existing fair value definition are retained, the IPSASB decided changes to these definitions of fair value should be considered as part of any projects specific to these IPSAS.

BC76. As noted in BC10, guidance in IPSAS 46 is generic in nature. As such, specific measurement guidance in IFRS 13 has been located in the applicable IPSAS. For example, IFRS 13 paragraphs 34–56 and 70–71 are specific to measuring financial instruments and have been added to IPSAS 41, *Financial Instruments*.

Value in Use

BC77. One of the project's objectives was to provide more detailed guidance on the implementation of commonly used measurement bases and the circumstances under which these measurement bases will be used. In considering whether this Standard should include measurement guidance related to value in use, the IPSASB concluded value in use:

- (a) Is not commonly used – value in use is limited to impairment evaluations in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*; and
- (b) Is well understood both in application and identifying when it should be applied – IPSAS 21 and IPSAS 26 include extensive measurement guidance when applying a value in use measurement.

BC78. The IPSASB agreed including value in use guidance in this Standard is unnecessary. This decision was supported by responses to the Measurement Consultation Paper.

Application of Measurement Techniques

BC79. Since measurement techniques consider the attributes of measurement bases, some techniques can be applied to multiple bases. As such, the IPSASB decided to place generic measurement technique guidance in the core text to reflect the generic nature of the measurement technique and enable that guidance to be applicable across multiple measurement bases.

BC80. The IPSASB considered how a measurement technique can be used to estimate a value of an asset or a liability under a measurement basis when a public sector entity uses data available to estimate and reflect the attributes of that basis. Based on this analysis, the IPSASB concluded:

⁵ If IPSAS 46, *Measurement* is adopted prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

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- (a) The market approach can be used to estimate measures under the fair value and current operational value measurement bases;
- (b) The income approach can be used to estimate measures under the fair value and cost of fulfillment measurement bases; and
- (c) The cost approach can be used to estimate measures under the fair value and current operational value measurement bases.

The IPSASB noted that judgment is required to select and apply the most appropriate technique to estimate a value of an asset or a liability under a particular measurement basis for each transaction, or event, that best meets the objective of that basis.

BC81. In developing this Standard, the IPSASB elected to align with IFRS 13, *Fair Value*, adopting all measurement techniques set out in IFRS 13. The cost approach is considered an appropriate measurement technique to approximate Fair Value as the cost to replace an asset is consistent with an exit price definition of fair value. An entity's cost to replace an asset would equal the amount that a market participant buyer of that asset (that would use it similarly) would pay to acquire it (i.e., the entry price and the exit price would be equal in the same market).

Depreciation and Amortization

BC82. Depreciation is a charge for the consumption of an asset over its estimated useful life. The Standard does not address depreciation. Requirements and guidance on depreciation are provided at standards level. For example, IPSAS 45, *Property, Plant, and Equipment*, addresses:

- (a) The unit of account for depreciation;
- (b) The recognition of depreciation;
- (c) The point at which depreciation of an asset begins;
- (d) The relationship between economic and useful lives;
- (e) The circumstances under which land may be depreciated;
- (f) Depreciation methods; and
- (g) The relationship between the revenue generated by an asset and depreciation.

BC83. Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level, and the Standard does not address amortization. IPSAS 31, *Intangible Assets*, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.

BC84. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example, IPSAS 45 requires that assets on the current value model with useful lives are depreciated. IPSAS 16, *Investment Property*, does not require depreciation of an investment property that is measured in accordance with the current value model subsequent to initial recognition.

Disclosures

BC85. The scope of the measurement project included the development of enhanced measurement disclosures that would apply across the IPSAS. In developing disclosures, the IPSASB agreed no

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additional disclosures are required for assets and liabilities measured using the historical cost model. As no remeasurement occurs, there is no additional information to disclose as part of subsequent measurement.

- BC86. For assets and liabilities measured using the current value model, the IPSASB agreed additional disclosures are required. With recurring remeasurements, new information is available as at each measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making.
- BC87. The IPSASB developed disclosures that are to be applied consistently across the IPSAS that require assets or liabilities be measured using a measurement basis available in the current value model. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied.
- BC88. In March 2022, the IPSASB reconfirmed the location of the disclosure requirements. The IPSASB considered whether generic measurement disclosure requirements that apply across the IPSAS should be consolidated in the Measurement standard. The IPSASB expressed concern about splitting the disclosure requirements. The IPSASB agreed to maintain the existing approach of inserting the disclosure requirements in the relevant IPSAS to clearly indicate the disclosures to be applied.

Transition

- BC89. The IPSASB concluded that although IPSAS 46 is a major new standard that incorporates the IFRS 13, *Fair Value*, concept into IPSASB literature, much of the Standard is a codification of existing measurement guidance currently spread across many individual IPSAS. IPSAS 46 brings together generic measurement guidance, while transaction-specific guidance remains in those individual IPSAS.
- BC90. Consequently, the IPSASB decided that IPSAS 46 should be effective for annual periods beginning on or after January 1, 2025. Because IPSAS 46 applies when other IPSAS require or permit application of the measurement bases, the IPSASB believes that the extended transition period for IPSAS 46 provides enough time for entities, their auditors and users of financial statements to prepare for implementation of its requirements.
- BC91. The IPSASB proposed prospective application because a change between current value measures would be inseparable from a change in the current value measurements (i.e., as new events occur or as new information is obtained, e.g., through better insight or improved judgment). Therefore, the IPSASB concluded that IPSAS 46 should be applied prospectively (in the same way as a change in accounting estimate).

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 46, Measurement.

Section A: Measurement

A.1. *What are the attributes of each measurement basis?*

	Fair Value	Current Operational Value	Cost of Fulfillment	Historical Cost
Asset Valuation	X	X		X
Liability Valuation	X		X	X
Exit Value	X		X	
Entry Value		X		X
Entity Specific		X	X	X
Market Inputs	X	X	X	
Market Participant	X			
Non-Performance Risk	X			
Risk Premium	X			
Current Market Conditions	X	X	X	
Principal or most advantageous market	X	X		
Highest and Best Use	X			
Least costly manner		X	X	

A.2 *What disclosures are required when applying current value measurements bases in IPSAS?*

For assets and liabilities measured using the current value model, additional disclosures are required. With recurring remeasurements, new information is available as at each measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied. For example, disclosures related to the fair value hierarchy are inserted in the relevant IPSAS as follows:

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			Fair Value Measurement						Only Fair Value Disclosed		
			Recurring			Non-Recurring			L1	L2	L3
IPSAS	Relevant paragraph	Requirement	L1 ⁶	L2 ⁷	L3 ⁸	L1	L2	L3			
IPSAS 12 (50C (b))	(a)	Fair value measurement at the end of the reporting period	X	X	X	X	X	X			
IPSAS 16 (89C (b))	(a)	Reasons for the measurement				X	X	X			
IPSAS 27 (46C (b))	(b)	Level of the fair value hierarchy	X	X	X	X	X	X	X	X	X
IPSAS 30 (30C (b))	(c)	Description of the measurement technique(s) and the inputs used in the fair value measurement		X	X		X	X		X	X
IPSAS 31 (123C (b))	(c)	Any changes to the measurement technique(s) and the reasons therefore		X	X		X	X		X	X
IPSAS 34 (23C (b))	(c)	Quantitative information about the significant unobservable inputs used in the fair value measurement		X	X		X	X		X	X
IPSAS 38 (57C (b))	(d)	Reconciliation from the opening balances to the closing balances			X						
	(e)	Total gains or losses for the period included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those intangible assets held at the end of the reporting period			X						
	(f)	Description of the valuation processes used by the entity			X			X			

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	(g)	Narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs			X						
	(g)	For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes ⁹ .			X						

Section B: Selection of Measurement Bases

B.1. How does an entity determine the intended primary measurement objective of an asset?

Where an asset is held for both its financial capacity and operational capacity purposes, an entity shall determine the primary objective of holding the asset in order to select the appropriate measurement basis. An entity should apply professional judgment and consider the principles outlined in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, (paragraphs 16–21) to determine the asset’s intended primary objective. Where an entity is unable to do so using those principles, an entity shall presume that the asset is non-cash-generating given the overall objective of the public sector.

B.2. How does an entity determine whether an asset is one unit of account or multiple units of account?

In some cases, an asset held for both its financial and operational capacity may be an indicator of where each part of the asset should be measured separately and measured using a different measurement basis. For example, the part of the asset used for operational purposes is measured using current operational value, and the part of the asset used for financial purposes is measured using fair value. This may occur when one wing of a hospital generates a financial return by charging for health care services, while another wing of a hospital is held only for its operational capacity where health care services are delivered free of charge to citizens.

⁶ Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

⁷ Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

⁸ “Level 3 inputs are unobservable inputs for the asset or liability.

⁹ This disclosure requirement is limited to the amendments made to *IPSAS 30, Financial Instruments: Disclosures*.

Whether the asset is a stand-alone asset, has multiple parts, or is a group of assets depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this Standard.

B.3. *What should an entity consider when determining the appropriate measurement model?*

The historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

- (a) A more senior level of government for all entities in a sector or jurisdiction; or
- (b) An applicable regulatory framework in the jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity should select the measurement model that best meets the informational needs of the user of the financial reports.

In selecting the appropriate measurement model, the reporting entity should consider whether or not it wants its asset or liability to reflect the value of the transaction at the date of initial recognition, or the current value of the same transaction on the date of measurement.

Section C: Historical Cost

C.1. *Is there a difference between the transaction price and the historical cost basis?*

Yes. Transaction price is defined as the consideration given to acquire, construct, or develop an asset, or received to assume a liability, and is used to measure an asset or liability on the date of initial recognition. The historical cost basis is derived from the transaction price adjusted for transaction costs, or deemed cost where applicable. In some cases, the historical cost basis may be equal to the transaction price, and in some cases the historical cost basis is derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability.

C.2. *Should transaction costs be subtracted from the transaction price when determining the historical cost of a liability?*

Yes. The definition of historical cost includes transaction costs, as such costs can be significant. To appropriately reflect the economics of the liability, transaction costs incurred to assume the liability are deducted from the contractual amount of the borrowing. For example, an entity borrows CU1,000,000 of which transaction costs are CU100,000. In such an instance the historical cost is 900,000 CU. This is because immediately after taking receipt of the CU1,000,000, the transaction costs of CU100,000 is repaid to the institution or counterparty, leaving the entity with CU900,000. The transaction costs of CU100,000 are included in interest expense over the term of the instrument as the carrying amount of CU900,000 is accreted to CU1,000,000 on the settlement date.

Section D: Current Operational Value

D.1. *How does an entity reflect the remaining service potential of an asset?*

Service potential is the capacity to provide services that contribute to achieving the entity's policy objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. To reflect the remaining service potential, the age, functionality, and condition of the asset need to be reflected in the measurement.

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For example, a new asset is expected to have more remaining service potential than an asset that is midway through its service life. The age of the asset is correlated with the remaining service potential. Reflecting the age of the asset in the measurement, ensures the remaining service potential is estimated appropriately.

The current age, functionality, and condition of an asset is reflected in the asset measurement by considering physical, functional, and economic obsolescence.

- (a) **Physical Obsolescence** – Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration.
- (b) **Functional Obsolescence** – Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.
- (c) **Economic (or External) Obsolescence** – Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

D.2. How does an entity calculate the current operational value of an asset when there is no active market?

If the price to acquire an identical, or a similar, asset is unavailable in an active market, current operational value will be determined based on the cost to develop or produce an identical, or a similar, asset (i.e., the cost approach).

When determining the cost to develop or produce an identical, or similar, asset, an entity determines the price of each part of the asset included in the assembly of the asset. The cost to develop or produce the asset also includes the amount that would be paid to assemble the parts, or develop or assemble the asset. Observable inputs are used in determining the price of parts and the costs to assemble, construct, or develop when it is feasible to do so. As current operational value is an entity-specific valuation, observable inputs are used when they are available, and they are relevant to the entity. For example, when measuring an aircraft, the ministry of defense may conclude it would acquire each of the parts in an active market, but use its own personnel to construct the aircraft (i.e., the least costly manner). Observable inputs are used for the fuselage, engine, etc. as they are relevant to the ministry of defense. Entity-specific inputs related to the assembly of the parts are applied as the ministry of defense will assemble the aircraft internally.

D.3. How does an entity identify an identical, or similar, asset when new technology has been developed making the existing asset obsolete?

An entity measures current operational value by identifying the price it would pay for the remaining service potential of an identical asset in an active market. An identical asset in an active market is used regardless of whether new technology exists that supersedes the asset under valuation. For example, if a health authority is measuring the current operational value of ventilators acquired 10

years previously, it does not consider the newest iteration of a ventilator when identifying an identical asset.

When an identical asset cannot be identified, a similar asset may be the latest iteration of the asset. However, in determining the current operational value, the value of the most recent iteration of the asset is adjusted to reflect the current age, functionality, and condition of the asset under valuation.

D.4. Is the currently unused capacity of an asset excluded from the current operational value of an asset?

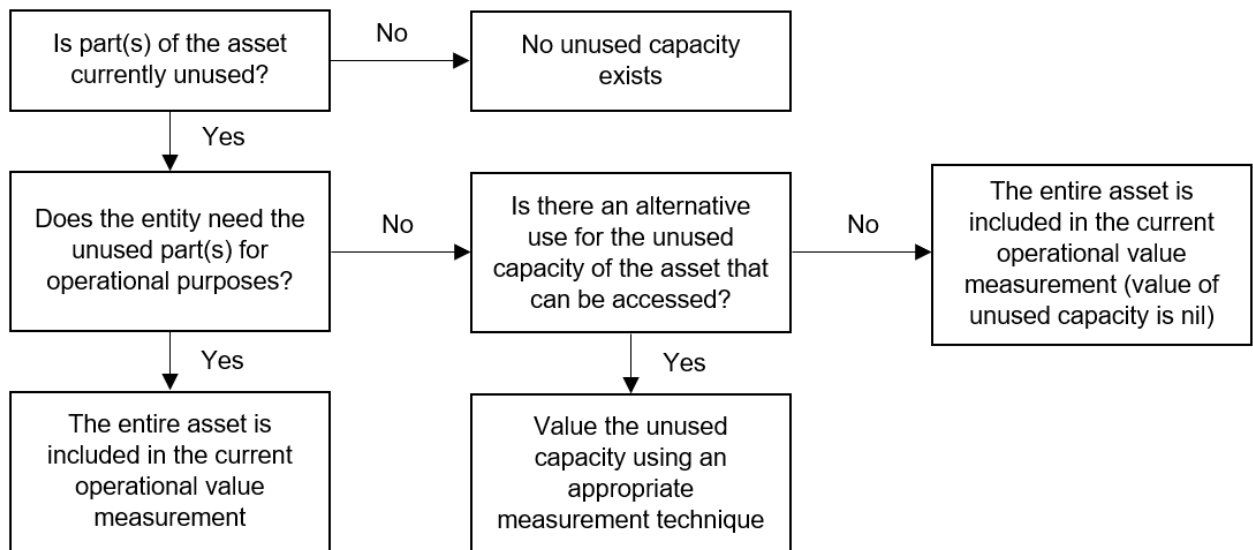
It depends. Any part of the asset that is currently unused is evaluated to determine whether the unused part is held for an operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, or when the unused portion is necessary for future use (see decision tree below).

For example, a community center in a municipality prone to natural disasters has a capacity of 700 individuals even though only 200 individuals currently use the location on a regular basis. The unused portion still has operational capacity because the building has a dual purpose. It is operated as both a community center and as a shelter for the community in the event of a natural disaster. The currently unused capacity of 500 individuals is still required for the municipality's broader operational purpose and so the whole asset is included in the measurement of its current operational value.

Another example might be where the currently unused part of the asset is expected to be required in the near future. In circumstances where a school is built in a community that is rapidly growing, it may have been constructed to take the anticipated student numbers rather than the existing student numbers. The current unused portion is, therefore, required and is included in the measurement of the school's current operational value.

Where it is determined that the unused part of the asset has no operational purpose, an entity must determine whether it has an alternative use. When an alternative use is currently available, the relevant part of the asset is valued as a separate unit of account using an appropriate measurement basis. Where the unused part has no alternative use, it is included in the current operational value, but has no value.

Illustration of the Analysis of Unused Capacity



D.5. Are restrictions on an asset's use or disposal taken into account in the current operational value of an asset?

Yes. Many assets are subject to restrictions on their use or disposal. Such restrictions affect how the entity operates the asset. For example, a state may restrict the operation of a municipally run building, where the building is required to be operated as a library. When the entity measures the current operational value of the building, it measures the building on the basis that its use is restricted to being operated as a library.

D.6. What factors are considered in identifying a modern equivalent asset, and what adjustments are necessary to reflect the current operational value of the existing asset?

A modern equivalent should reflect the same characteristics as the asset being measured. If the equivalent asset has a different service potential from the asset being measured (although necessarily the same nature), comparison techniques are used to adjust for the difference between the service potential of the entity's asset being measured and the service potential of the equivalent reference asset.

In some circumstances a modern equivalent asset may not be reflective of the asset being measured. For example, it may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as an historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent would not represent the heritage value of the asset and therefore would not be a suitable measurement.

The cost of a modern equivalent asset will reflect the amount that would be paid if the asset were developed or produced on the measurement date. However, there are factors that may result in the cost of the modern equivalent asset being different from that of creating the actual asset:

- (a) Phasing of work – An asset may have been developed in phases. The cost of a modern equivalent asset would be based on a single-phase development, and measured at the cost at the measurement date. A single-phase development may still occur over an extended period of time.
- (b) Borrowing costs – If the entity does not capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*, the entity disregards any financing costs in measuring the modern equivalent asset.
- (c) Additional costs arising from extending an existing asset – These costs are not considered as the valuation will be of a modern equivalent asset.
- (d) Contract variations – Additional construction costs because of contract variations should not be considered. The modern equivalent asset being valued will have the same service capacity as the existing asset in its existing use.
- (e) Planning changes – Entities should consider whether planning consent would need to be obtained to construct the modern equivalent asset and take this into account.

It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.

Section E: Use of Experts

E.1. *Who should carry out a valuation of assets or liabilities?*

Responsibility for obtaining a valuation of asset(s) or liability(ies) for financial accounting and reporting purposes rests with the preparer of the relevant financial statements. However, the valuation should be carried out by an individual (or organization) with the relevant expertise to provide a valuation that faithfully represents the values of the asset(s) or liability(ies) in the financial statements in accordance with IPSAS 1, *Presentation of Financial Statements*, paragraph 27.

The nature of the asset(s) or liability(ies) will guide the preparer of the financial statements in determining what field of expertise is required. For example: the measurement of liabilities arising under a pension scheme will require the input of an actuary; the measurement of medical plant and equipment assets will involve discussions with clinicians and procurement experts; those responsible for the management of vehicle fleets will need to be involved with the valuation of those fleets; the measurement of any legal claims against the entity (liabilities) will involve discussions with the entity's legal advisors; the valuation of infrastructure assets will involve engineers and surveyors; and the valuation of land and buildings will need to be carried out by appropriately qualified surveyors.

E.2. *What type of information will the valuation specialist require in order to carry out a valuation?*

The entity and the valuation specialist will need to discuss and agree the nature and scope of the valuation assignment prior to the assignment being undertaken. The information that the valuation specialist will require depends in part on the nature of the asset(s) or liability(ies) to be valued.

The information that the entity will need to give to the valuation specialist in order that the specialist can carry out a valuation will generally include some or all of the following.

- (a) The purpose of the valuation. An entity might require a valuation of its assets or liabilities for a variety of reasons, and the purpose might determine the basis of valuation that the expert will adopt. The purpose of the valuation in applying this Standard is for inclusion in the entity's financial statements. The entity should inform the valuation specialist that the financial statements will be prepared in accordance with IPSAS; a copy of the relevant IPSAS (or the relevant extract) might usefully be supplied to and discussed with the valuation specialist. Any discussion between the entity and the valuation specialist should clarify what valuation work will be carried out and any specific disclosures required to accompany the valuation in order to ensure that the precise accounting needs are addressed.
- (b) The asset(s) or liability(ies) being valued. The entity and the valuation specialist need to agree what asset(s) or liability(ies) are to be valued for inclusion in the financial statements. The valuation specialist will need:
 - (i) To understand the entity's legal interest in each asset or liability, and whether the whole or only part of the legal interest will be valued;
 - (ii) Information about the purpose of holding the asset or liability – for financial capacity or operational capacity – as the purpose may influence the valuation specialist in the selection of a valuation method (a measurement basis or technique);
 - (iii) Information about any improvements made by the entity, where the entity is a tenant of real estate, and whether these improvements would to be disregarded on renewals, or review of the lease, and whether the entity will need to reinstate the real estate to its original condition at the end of the tenancy;

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- (iv) To understand the degree of control an entity has over real estate or other property¹⁰ that is owned by more than one entity and how any rights held by the other owning entities might restrict the ability of an entity to sell its interest in the real estate or other property;
- (v) To ensure that, in the context of a portfolio of real estate, any grouping of those assets is appropriate;
- (c) Assumptions. International or national standards applicable to the type of valuation may differentiate between assumptions that are consistent, or could be consistent, with the known facts at the date of the valuation, and where the assumptions used in the valuation differ from the known facts. When applicable, the entity and the valuation specialist will need to agree what assumptions should be used in the valuation, taking into account the attributes of the measurement basis; any assumptions should be included in the valuation report.
- (d) The valuation date. The entity will need to inform the valuation specialist of the specific valuation date required.
- (e) The reporting currency. The entity must inform the valuation specialist of the currency in which the valuation of the asset or liability will be expressed in the financial statements. This is particularly important where the asset(s) or liability(ies) being valued are spread across more than one jurisdiction or where cash flows associated with the asset(s) or liability(ies) are expressed in more than one currency. A typical example is the operation of overseas diplomatic activities.
- (f) Limitations on the work of the valuation specialist. A valuation specialist will follow the appropriate international or national standards applicable to the type of valuation being undertaken. The methodology used by the valuation specialist might include any of the following:
 - (i) Physical inspections of the asset(s) or liability(ies) (particularly if the valuation specialist is undertaking a valuation of the specific asset(s) or liability(ies) for the first time).
 - (ii) Enquiries (both internal and external to the entity).
 - (iii) Analysis of the information provided by the entity or through enquiries, or from the results of any physical inspections.

The entity must inform the valuation specialist of any limitations or restrictions that will be imposed on the valuation assignment because these may affect the results of the valuation and will need to be recorded in the valuation report.

E.3. What valuation bases does the valuation specialist use?

Valuation specialists will use international or national standards appropriate for the valuation assignment. In general terms, the valuation specialist will use a market approach, income approach, or cost approach to determine the valuation, depending on the nature of the asset (or liability), the purpose, measurement objective and measurement basis, intended use and context of the particular assignment, and any jurisdictional statutory or other mandatory requirements.

¹⁰ Other property is/are asset(s) or liability(ies) other than real estate as defined above.

E.4. What sort of assumptions would it be reasonable for the valuation specialist to make when carrying out a valuation of real estate using the cost approach (often referred to as the depreciated replacement cost valuation method)?

The nature of any assumptions must be consistent with the principles of the standard. Nevertheless, because the valuation is entity specific, it is important that the valuation specialist understands the entity's perspective about the real estate, and information that supports that perspective, when determining the assumptions. Assumptions are likely to take in to account the factors listed below, which the valuation specialist should determine with the entity when scoping the valuation assignment.

- (a) The construction of the building is immediate.

Although buildings are constructed over time, when revalued under the cost approach the valuation specialist is required to assume the production or development of the asset is immediate as at the valuation date, rather than establish the costs over the likely period of construction, adjusted for the time value of money. The method of determining the base cost is a factor that the valuation specialist should determine with the entity.

- (b) The existing location of the real estate.

Goods and services can be provided from various locations. For example, a hospital can be constructed in various locations to provide similar health care services to a group of citizens. When applying current operational value, the valuation specialist is required to assume the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated.

- (c) Whether or not the entity has a policy to capitalize borrowing costs.

Borrowing costs are included in the current operational value of the asset only if the entity capitalizes borrowing costs in accordance with IPSAS 5, *Borrowing Costs*. Where the entity does not capitalize borrowing costs, the valuation specialist reflects this policy choice in their assumptions and disregards any financing costs in measuring the modern equivalent asset.

- (d) Expected demographic changes that affect the use of the building.

Demographic changes may be reasonably expected over the remaining life of the building. Such changes may indicate a reduction in the demand for services delivered using the building. This in turn might lead to a change in assumption about the ongoing use of the building or to a change in the specifications required for an efficient and effective replacement of the building. Conversely, demographic changes may support an increase in the expected demand for services delivered using the building, which may support a higher use for the asset than current demographics indicate. This may occur when a school is operating below capacity, but other development in the area suggests the school will operate at capacity when the development is complete. The effect of demographic changes on the replacement of the building is a factor that the valuation specialist should determine with the entity.

- (e) Specialized features of the building.

A building might have a conventional, basic design that is similar to other buildings that are regularly bought and sold in the market, but on closer inspection have specialized features designed to meet the requirements of the entity. Examples of specialized features include

the addition of security/safety enhancements to protect staff from physical attack in buildings used for the delivery of services directly to the public; stand-off land around embassies to protect the premises (and staff) from terrorist attack; or other adaptations to a building to enhance efficiency and effectiveness in delivering services. The requirement for specialized features associated with real estate assets is a factor that the valuation specialist should determine with the entity.

- (f) The appropriateness of standard design lives and costings.

The construction industry will generally have standard design lives for different types of buildings (residential, commercial, or industrial); engineers will take a similar approach to certain types of built structures such as bridges or dams. In some cases, there may also be standard costings associated with property assets. The valuation specialist is likely to use these standard model assumptions in preparing the valuation unless there is information to suggest that those standards should be adjusted. Information to support appropriate design lives and costings are factors that the valuation specialist should determine with the entity.

E.5. What is meant by a 'modern equivalent asset'?

A modern equivalent asset is one that provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques.

The concept of a modern equivalent asset is applied by a valuation specialist when valuing real estate under the cost approach (the depreciated replacement cost (DRC) valuation method in some international or national valuation standards).

The depreciated replacement cost method is based on the economic theory of substitution. The underlying theory is that the potential buyer in an exchange transaction would not pay any more to acquire the asset being valued than the cost of acquiring an equivalent new one. The technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

In order to assess the price that the entity would pay for the actual asset, valuation adjustments have to be made to the gross replacement cost of the modern equivalent asset to reflect the differences between it and the modern equivalent. These differences can reflect obsolescence factors such as the physical condition, the remaining economic life, the comparative running costs and the comparative efficiency and functionality of the actual asset. Land required for the modern equivalent asset will be separately assessed.

Under the cost approach, the valuation specialist will reflect all appropriate costs in the price the entity would pay for the asset; these will include the value of the land, infrastructure, design fees, finance costs (where appropriate) and developer profit that would be incurred by a participant in creating an equivalent asset.

If the entity does not capitalize borrowing costs under IPSAS 5, *Borrowing Costs*, the valuation expert needs to disregard financing costs.

The cost of the modern equivalent asset needs to be adjusted to reflect the condition, functionality and any other factors of obsolescence of the existing asset. The valuation specialist will consider, in consultation with the entity:

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- (a) **Physical Obsolescence** – Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration.
- (b) **Functional Obsolescence** – Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.
- (c) **Economic (or External) Obsolescence** – Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

E.6. Do I have to use a valuation expert external to my entity?

You do not have to use a specialist from another organization. Where an entity has the relevant, suitably qualified (that is, a member of an appropriate professional body) expertise available in-house, that specialist can be used to provide a valuation.

Whatever the source of the expertise, the name, qualifications and employing organization of the valuation specialist must be provided in the notes to the financial statements. This disclosure might be in the note on accounting policies or in the notes accompanying the detailed asset disclosures.

E.7. What can I expect from a valuation specialist's report?

International and national valuation standards require valuation specialists to include certain information in their reports. This will apply regardless of whether the valuation is carried out in-house or externally.

The information in a report will depend partly on what the entity and the valuation specialist agreed prior to the assignment, partly on the nature of the asset(s) or liability(ies) being valued, and partly on the standards framework used by the valuation specialist.

The information in the report will include, but will not necessarily be limited to:

- (a) The name, qualifications, employing organization and any other relevant details of the valuation specialist.
- (b) The name of the entity that commissioned the valuation and the name(s) of any other intended users of the report.
- (c) The purpose of the valuation.
- (d) The asset(s) or liability(ies) valued. For real estate assets, the report might include maps and plans depending on jurisdictional requirements, as well as the type of tenure (freehold or leasehold and, in the case of leasehold, details of the financial terms and of the responsibilities for repairs etc. under the lease).
- (e) The valuation base(s) adopted.

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- (f) The valuation date and the date of the valuation report.
- (g) A discussion of the approach the valuation specialist took in undertaking the assignment – for example, details of any physical inspections, interviews, review of documents, constraints placed on the assignment, etc.).
- (h) Assumptions and special assumptions.
- (i) Confirmation that the valuation has been undertaken in accordance with the relevant international or national valuation standards.
- (j) The valuation amount(s) and the reasoning behind arriving at those amounts, with reference to the bases used. The report will provide separate valuation amounts for land and buildings on that land. It is likely that the valuation report will include separate valuation amounts for individual components of an asset where material in terms of the amounts or significant in terms of the asset itself. The report will include valuation amounts in both functional and reporting currencies (as appropriate).
- (k) A discussion of any material uncertainties in the valuation amount(s) where this is necessary for a proper understanding of the valuation amount(s).
- (l) For certain liabilities, the probability of the timing and amount of any payments to settle claims.

Comparison with IFRS 13

The fair value measurement requirements in IPSAS 46, *Measurement* are drawn primarily from IFRS 13, *Fair Value Measurement* (issued in May 2011, including amendments up to February 2023). The main differences between IPSAS 46 and IFRS 13 are as follows:

- IPSAS 46 provides guidance on historical cost, current operational value, cost of fulfillment and fair value. IFRS 13 only provides guidance on fair value.
- IPSAS 46 requires an entity to apply the measurement disclosure requirements in the relevant IPSAS. IFRS 13 includes all disclosures about fair value measurement.

Comparison with GFS

In developing IPSAS 46, *Measurement*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the measurements under IPSAS 46 and GFS will depend on the facts and circumstances of the transactions and carrying amounts at the end of the reporting period.
- On initial recognition, IPSAS 46 requires measurement at transaction price or deemed cost where appropriate. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so both may result in the same valuations.
- IPSAS 46 requires capitalization of transaction costs for all assets, while GFS only requires capitalization of cost of ownership transfer for non-financial assets.
- On subsequent measurement, IPSAS 46 allows historical cost, current operational value, cost of fulfillment and fair value measurement bases. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so the same valuation can result if the market approach is used as the measurement technique.

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Published by:



IPSASB

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Final Pronouncement
May 2023

IPSAS®

Conceptual Framework Update

*Chapter 7, Measurement of
Assets and Liabilities in
Financial Statements*

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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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CHAPTER 7, MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

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Introduction

7.1 This Chapter identifies the measurement concepts that guide the IPSASB in the selection of the most commonly used measurement bases for IPSAS and for preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in IPSAS.

The Objective of Measurement

7.2 The objective of measurement is:

To select those measurement bases that most fairly reflect the cost of services, operational capacity, and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

7.3 The selection of measurement bases for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:

- Cost of services—the cost of services provided in the period in historical or current terms;
- Operational capacity—the capacity of the entity to support the provision of services through physical and other resources; or
- Financial capacity—the capacity of the entity to fund its activities.

7.4 The selection of measurement bases also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports. The following subsections provide guidance on measurement at recognition (initial measurement) and measurement subsequent to recognition (subsequent measurement).

Initial Measurement

7.5 Initial measurement for an asset is at transaction price plus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration given to acquire, construct or develop an asset. Transaction costs for assets are incremental costs that are directly attributable to the acquisition, construction, or development, of an asset and would not have been incurred if the entity had not acquired, constructed, or developed the asset. Transaction price plus transaction costs is the historical cost for an asset.

7.6 Initial measurement for a liability is at transaction price minus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration received to assume an obligation. Transaction costs for liabilities are incremental costs that are directly attributable to the incurrence of a liability and would not have been incurred if the entity had not incurred the liability. Transaction price minus transaction costs is the historical cost for a liability,

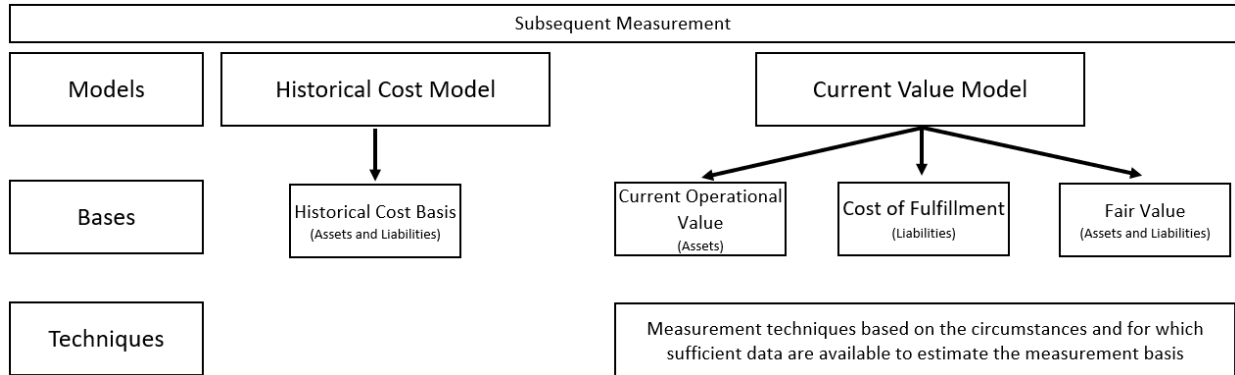
7.7 For both assets and liabilities, where there are no transaction price data available or if the transaction price does not faithfully present relevant information about the asset and liability of the entity' in a manner that is useful in holding the entity to account, and for decision-making purposes, a deemed cost is used.

Subsequent Measurement

7.8 Subsequent to initial measurement there are three levels of measurement:

- Measurement models;
- Measurement bases; and
- Measurement techniques.

Diagram 1: The subsequent measurement framework and the relationship between the three levels



7.9 **Measurement models** are the broad approaches for measuring assets and liabilities for inclusion in the financial statements.

7.10 Under the historical cost model, assets and liabilities are measured at historically-based amounts. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous¹ for liabilities.

7.11 Under the current value model, assets and liabilities are measured using information updated to reflect price changes to the measurement date.

7.12 **Measurement bases** are specific ways of measuring assets and liabilities under the selected measurement model. Measurement bases provide information that best meets the qualitative characteristics while taking into account the constraints on information in financial reports.

7.13 Subsequent measurement may be either on the historical cost measurement basis or on one of the measurement bases under the current value model (see paragraph 7.15).

7.14 **Measurement techniques** are methods to estimate the amount at which an asset or liability is measured under the selected measurement basis. The selection of a measurement technique depends on factors such as the characteristics of an asset or a liability and the availability of observable data. Guidance on measurement techniques is provided at the standards level.

¹ An obligation is onerous when the unavoidable costs of meeting the obligation under a binding arrangement exceed the economic benefits or service potential expected to be received under the binding arrangement.

The Selection of Measurement Models and Measurement Bases

- 7.15 It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a conceptual level for all circumstances. Therefore, the Conceptual Framework does not propose a single measurement model or measurement basis (or combination of bases) for all transactions, events, and conditions. It provides guidance on the selection of a measurement model and a measurement basis for assets and liabilities from those bases most commonly used in order to meet the measurement objective. It may be necessary to select measurement bases from different measurement models in order to meet the measurement objective.
- 7.16 The following measurement bases for assets are identified and discussed in terms of the information they provide about (a) the cost of services delivered by an entity, (b) the operational capacity and the financial capacity of an entity; and (c) the extent to which they provide information that meets the qualitative characteristics while taking into account the constraints on information in financial reports:
- Historical cost;
 - Current operational value; and
 - Fair value.
- 7.17 Value in use is used solely for the impairment of assets, and therefore is discussed separately in paragraphs 7.57-7.62.
- 7.18 The following measurement bases for liabilities are identified and discussed:
- Historical cost;
 - Cost of fulfillment; and
 - Fair value.
- 7.19 The next two sub-sections discuss classifying measurement bases as entity or non-entity specific and entry-based or exit-based.

Entity-Specific and Non-Entity-Specific Measures

- 7.20 Measurement bases may be classified according to whether they are “entity-specific” or “non-entity-specific”. Measurement bases that are entity-specific reflect the economic, legal and other constraints that affect the possible uses of an asset or the fulfillment of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks to which other entities are not exposed. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measurement basis is taken by reference to the measurement objective and the qualitative characteristics. Tables 1 and 2 classify the measurement bases for assets and liabilities as entity-specific or non-entity-specific.

Table 1: Classification of Measurement Bases for Assets as Entity-Specific or Non-Entity-Specific

Measurement Basis	Entity-Specific or Non-Entity-Specific
Historical cost	Entity-specific
Current operational value	Entity-specific
Fair value	Non-entity-specific

Table 2: Classification of Measurement Bases for Liabilities as Entity-Specific or Non-Entity-Specific

Measurement Basis	Entity -Specific or Non-Entity-Specific
Historical cost	Entity-specific
Cost of fulfillment	Entity-specific
Fair value	Non-entity-specific

Entry and Exit Values

- 7.21 Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. Current operational value and historical cost are entity specific measures for assets and are entry values. Fair value is a market-based, non-entity specific measure, and is an exit value.
- 7.22 For liabilities, entry values relate to the transaction or event under which an obligation is incurred. Exit values reflect the amount required to fulfill or transfer an obligation. For example, historical cost is an entity specific measure for liabilities and is an entry value, Cost of fulfillment is an entity specific measure and fair value is a market- based, non-entity specific measure; both measures are exit values.
- 7.23 Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases normally include transaction costs on the acquisition, construction, or development of an asset and on the incurrence of a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or fulfillment or transfer of a liability.

Level of Aggregation or Disaggregation for Measurement

- 7.24 In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics, it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate, consideration is given to:
- Guidance on unit of account in Chapter 5;
 - The materiality of aggregation or disaggregation; and

- The costs of aggregation or disaggregation compared with the benefits in terms of the extent to which the aggregation or disaggregation meets the objectives of financial reporting.

Measurement Bases for Assets

7.25 This section discusses the following measurement bases for assets:

- Historical cost;
- Current operational value; and
- Fair value.

Historical Cost

7.26 Historical cost for an asset is:

The consideration given to acquire, construct, or develop an asset at the time of its acquisition, construction, or development plus transaction costs.

7.27 Consideration is the cash or cash equivalents, or the value of other resources given. Historical cost is an entity-specific measurement basis reflecting the costs incurred in acquiring, constructing, or developing an asset. Subsequent to initial measurement, the historical cost for certain assets may be allocated as an expense to reporting periods in the form of depreciation or amortization. Depreciation and amortization represent the consumption of the service potential or ability to generate economic benefits provided by such assets over their useful lives. Consistent with the historical cost model, following initial measurement, the carrying amount of an asset is not changed to reflect changes in prices, except where related to impairment (see below paragraph 7.28).

7.28 Under the historical cost model, the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset has diminished due to changes in economic or other conditions, which is distinct from the consumption of an asset. This involves an assessment of the recoverable amount of an asset. Depreciation, amortization, and impairment may also be relevant to measurement bases under the current value model (see paragraph 7.35). Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements or other events, such as the accrual of interest on a financial asset.

Cost of Services

7.29 Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire, construct, or develop assets consumed in the provision of services. Historical cost generally is based on the transactions actually entered into by the entity. As the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the current cost of assets when the assets are consumed. As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition, construction, or development are significant. Where budgets are prepared on the historical cost basis, historical cost information demonstrates the extent to which the budget has been executed.

Operational Capacity

7.30 If an asset has been acquired, constructed, or developed in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their

acquisition cost. At the time an asset is acquired, constructed, or developed, it can be assumed that the value to the entity of its service potential is at least equal to the cost of its acquisition, construction, or development. When depreciation or amortization is recognized, it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services are at least equal to the amount at which they are stated. Where an asset has been acquired, constructed, or developed in a non-exchange transaction, the transaction price will not provide information on operational capacity that meets the qualitative characteristics while taking into account the constraints on information in financial reports (also see paragraph 7.7).

Financial Capacity

7.31 The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost, less depreciation or amortization, and any accumulated impairment losses can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be derived from use of the asset and received on sale of an asset and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current values.

Application of the Qualitative Characteristics

7.32 Paragraphs 7.29-7.31 explain the areas where historical cost provides relevant information with confirmatory or predictive value. Application of historical cost is often straightforward because transaction information is usually readily available. As a result, amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that is, the cost to acquire, construct, or develop an asset based on actual transactions. As application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are generally verifiable and understandable, and can be prepared on a timely basis.

7.33 Historical cost information is comparable to the extent that assets have the same or similar acquisition, construction, or development dates. Historical cost does not reflect the impact of price changes, so it is not possible to compare meaningfully the amounts of assets that were acquired, constructed, or developed at different times when prices differed.

7.34 In certain circumstances, the application of historical cost necessitates the use of allocations—for example where:

- Several assets are acquired in a single transaction;
- Assets are constructed or developed by the entity itself and overheads and other costs have to be attributed; and
- The use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held.

To the extent that such allocations are arbitrary, they reduce the extent to which the resulting measurement achieves the qualitative characteristics.

Measurement Bases for Assets under the Current Value Model

- 7.35 Measurements under the current value model reflect the economic environment prevailing at the reporting date. Depreciation, amortization, and impairment, which are discussed in the context of the historical cost measurement model in paragraphs 7.27 and 7.28, are also relevant to current value measurement bases in certain circumstances. Additions and enhancements may affect measurements under current operational value and fair value.
- 7.36 Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity and selects the current operational value measurement basis, or the fair value measurement basis based on that analysis. In making such a judgment an entity has regard to the appropriate unit of account. Guidance on unit of account is provided in Chapter 5.

Current Operational Value

7.37 Current operational value is:

The amount the entity would pay for the remaining service potential of an asset at the measurement date.

- 7.38 Current operational value presents an entity-specific measurement of an existing asset held for its operational capacity. Current operational value reflects:
- The amount the entity would pay for the remaining service potential of the asset in the least costly manner.
 - The remaining service potential of the asset taking into account the current condition of the asset.
 - The asset’s existing use and location.
- 7.39 An asset supports an entity delivering services in its existing use. ‘Existing use’ is the way an existing asset is used, rather than an alternative use, and generally reflects the policy objectives of the entity operating the asset. Current operational value therefore assumes that an asset will continue to be used for service delivery rather than being sold.

Cost of Services

7.40 The cost of services is reported in current terms when based on current operational value. Thus, the amount of assets consumed is related to the value of the assets at the time they are consumed—and not, as with historical cost, at the time they were acquired, constructed, or developed. This provides a basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period—which are generally transactions of the current period and measured in current prices—and for assessing whether resources have been used economically and efficiently. It may also provide a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition, construction, or development dates, and for assessing the cost of providing services in the future and future resource needs. This is because future costs are more likely to resemble current costs than those incurred in the past when prices were different.

Operational Capacity

7.41 As indicated in paragraph 7.40, current operational value provides a measure of the resources available to provide services in future periods based on current policy, as it is focused on the current value of assets and their remaining service potential to the entity.

Financial Capacity

7.42 Current operational value does not provide information on an asset's ability to generate economic benefits or the amounts that would be received on its sale. It therefore may not facilitate an assessment of financial capacity.

Application of the Qualitative Characteristics

7.43 Current operational value focuses on the amount the entity would pay for the remaining service potential of an asset which supports the achievement of an entity's policy objectives. Current operational value therefore provides information that is both relevant and faithfully representative.

7.44 Current operational value information is comparable within an entity, as assets that provide equivalent service potential are stated at similar amounts, regardless of when those assets were acquired, constructed, or developed. Different entities may report similar assets at different amounts because current operational value is an entity-specific measure that reflects the opportunities available to the entity to obtain an asset to achieve an entity's policy objectives. These opportunities may be the same or similar for different entities. Where they are different, the economic advantage of an entity that is able to acquire, construct or develop assets at lower cost is reported in financial statements through lower asset values and a lower cost of services. This reinforces the ability of current operational value to provide relevant and faithfully representative information. The extent to which current operational value measures meet the qualitative characteristics of timeliness, understandability and verifiability depends on the nature of the asset and the estimation techniques used.

Fair Value

7.45 Fair value for an asset is:

The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

7.46 Fair value is appropriate where the asset is being held primarily for its ability to generate economic benefits or with a view to sale. The extent to which fair value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded.

7.47 In principle, fair value measurements provide useful information because they fairly reflect the value of the asset to the entity. In an orderly market (see paragraph 7.49), the asset cannot be valued at less than fair value, as, disregarding transaction costs, the entity can obtain at least fair value by selling the asset. The asset cannot be valued at more than fair value, as the entity can obtain the same ability to generate economic benefits by purchasing the same or a similar asset in the market.

7.48 The usefulness of fair value may be more questionable when the assumption that markets are orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired. Although the purchase of an asset provides evidence that the value of the asset to the entity is at least equal to its purchase price at that time, operational factors may mean that the value to the entity may be greater. Hence, fair value may not reflect the

value to the entity of the asset, represented by its operational capacity. Therefore, fair value may not be useful for operational assets that an entity intends to continue to use for service delivery.

Orderly Markets

7.49 Orderly markets have the following characteristics:

- There are no barriers that prevent the entity from transacting in the market;
- There is sufficient frequency and volume of transactions to provide price information; and
- There are many well-informed buyers and sellers acting without compulsion, so there is an assurance of “fairness” in determining current prices—including that prices do not represent distress sales.

An orderly market is one that is run in a reliable, secure, accurate and efficient manner. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies, and securities where prices are publicly available. In practice few markets, if any, fully exhibit all of these characteristics, but some may approach an orderly market.

Fair Value where Markets Cannot be Assumed to be Orderly

7.50 Markets for assets that are unique and rarely traded are unlikely to be orderly: any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. Where markets are not orderly, it is necessary to use a measurement technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. Such measurement techniques require inputs that are directly or indirectly observable, where possible, or unobservable where observable inputs cannot be identified.

7.51 Fair value permits a return on assets to be reported. However, public sector entities for which the IPSASB develops and maintains standards do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidized terms. Consequently, there may be limited relevance in a reported return derived from fair value.

Cost of Services

7.52 Fair value reflects the asset’s ability to generate economic benefits and the price expected to be received on sale. Therefore, when an asset is primarily held for its operational capacity, fair value provides less useful information for the cost of services than current operational value, which can reflect the value of an asset in its existing use.

Operational Capacity

7.53 The usefulness of information on the fair value of assets held to provide services is limited. If fair value is significantly lower than historical cost, fair value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity. Fair value is also likely to be less relevant than current operational value, as the highest and best financial use principle that underpins fair value is inappropriate for assets primarily held for operational capacity.

Financial Capacity

7.54 An assessment of financial capacity requires information on an asset's ability to generate economic benefits and the amount that would be received on sale of an asset. This information is provided by fair value. Fair value is therefore an appropriate measurement basis where assets are held for sale or where assets previously held for their operational capacity are surplus to operational requirements.

Application of the Qualitative Characteristics

7.55 Values determined in orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics—that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. As such information can be available quickly, it is also likely to be timely.

7.56 The extent to which fair value measurements meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, fair value is only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity.

Value in Use

7.57 Value in use is applicable for assessments of impairment. Impairment testing involves determining whether the amount at which an asset is stated on the statement of financial position is recoverable.

7.58 Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its sale at the end of its useful life. This requires the discounting of cash flows to a present value.

7.59 Value in use of a non-cash-generating asset is the asset's remaining service potential at the measurement date. The estimation of service potential requires the use of techniques, which are dependent on the nature of the asset and, because of its applicability to impairment, the indicator of impairment.

7.60 Value in use for cash-generating assets is complex and subjective, as it requires the projection of cash flows from an entity perspective. Further complexity arises where assets are deployed in combination with other assets. In such cases, value in use can be estimated only by calculating the present value of the cash flows of a group of assets, rather than on an individual basis. Allocations are then made to individual assets. Such allocations may be arbitrary, thereby having an adverse impact on faithful representation.

7.61 Value in use for non-cash-generating assets is also complex, as it requires entity-specific estimates of an asset's remaining service potential.

7.62 Paragraph 7.36 discusses the situation where an asset is used for service provision and also generates economic benefits, noting that an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity, and selects the current operational value measurement basis or the fair value measurement basis accordingly. This factor and the complexity and subjectivity discussed above mean that value in use in both a cash-generating and non-cash-generating context is likely to be applicable only to accounting for losses or reversals of losses related to impairment.

Measurement Bases for Liabilities

7.63 This section discusses the measurement bases for liabilities. This section does not repeat all the discussion in the section on assets. It considers the following measurement bases:

- Historical cost;
- Cost of fulfillment; and
- Fair value.

Historical Cost

7.64 Historical cost for a liability is:

The consideration received to assume an obligation minus transaction costs, at the time the liability is incurred.

7.65 Consideration is the cash or cash equivalents, or the value of other consideration given. Under the historical cost model initial measures are adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of a discount or amortization of a premium.

7.66 Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant—the amount of the future payment is discounted so that, at the time a liability is initially measured, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.

7.67 Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

Cost of Fulfillment

7.68 Cost of fulfillment is:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner at the measurement date.

7.69 Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account to estimate cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.

7.70 Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly way of fulfilling the obligation.

7.71 Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of fulfillment is based on the cost of employing a contractor, the amount will implicitly include the profit

required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.

- 7.72 Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date.
- 7.73 Cost of fulfillment is generally relevant for measuring liabilities except in circumstances where the entity can obtain release from an obligation at an amount lower than the cost of fulfillment.

Fair Value

- 7.74 Fair value for a liability is:

The price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- 7.75 Fair value may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear, the case for fair value is weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions because it is unlikely that there will be an orderly market for such liabilities.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Background to the Development of the Conceptual Framework and its Updating

- BC7.1 *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (The Conceptual Framework) was approved in September 2014. The development of the Conceptual Framework included a number of consultation papers and exposure drafts. On approval the IPSASB did not commit to a review of the Conceptual Framework within a specified timeframe. Although views were expressed that the Conceptual Framework should be a “living document” subject to regular updates, there was a broader view that it should be allowed to “bed down” for a significant period. Over-frequent amendments to the Conceptual Framework could also undermine the accountability that it imposes on the IPSASB in explaining approaches developed at the standards level.
- BC7.2 In 2018, after having applied the 2014 Conceptual Framework in standards development for over three years, the IPSASB considered that a limited review of certain aspects of the Conceptual Framework would be appropriate. The IPSASB’s project on Measurement was a principal factor. In addition, the International Accounting Standards Board (IASB) was about to issue its finalized Conceptual Framework with post-2014 developments on measurement of potential relevance to the public sector. The IPSASB therefore proposed a Limited-scope Update project in the consultation on its Strategy and Work Plan in 2018. The proposed project received significant support from respondents for the reasons outlined by the IPSASB. The IPSASB initiated the project in March 2020. Exposure Draft (ED) 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, was issued in April 2021. The IPSASB considered the points raised by respondents to the exposure draft in finalizing the revised Chapter 7. The revised Chapter 7 became applicable when approved.
- BC7.3 The IPSASB decided that the initial focus of the 2014 Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* in 2010 (the 2010 Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it. The Limited-scope Update project initiated in 2020 did not reopen this issue and continued to focus on the financial statements.

The Objective of Measurement

- BC7.4 In developing the 2014 Conceptual Framework the IPSASB considered whether a specific measurement objective should be developed. The IPSASB initially took the view that a separate measurement objective was unnecessary because a measurement objective might compete with, rather than complement, the objectives of financial reporting and the qualitative characteristics of financial reporting. Accordingly, the 2013 Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements* (the 2013 Exposure Draft), proposed factors relevant to the selection of a measurement basis consistent with the objectives of financial reporting and the qualitative characteristics but did not include a measurement objective.

- BC7.5 Consistent with this approach the 2013 Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements—in particular, it would allow the amounts of different assets and liabilities to be aggregated to provide meaningful totals. However, the IPSASB is of the view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics.
- BC7.6 The 2013 Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:
- To select those measurement attributes that most fairly reflect the financial capacity, operational capacity, and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.*
- BC7.7 Many respondents, while generally in favor of the approach in the 2013 Exposure Draft, supported the Alternative View. The IPSASB also acknowledged the view that the Conceptual Framework’s approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement model or measurement basis underpinned by an ideal concept of capital². The IPSASB accepts that a concept of capital related to operating capability is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.25–BC7.27, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.
- BC7.8 Subsequently, the IPSASB was persuaded by the views of those who argued that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the IPSASB noted that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to operational capacity and financial capacity. The IPSASB concluded that linking a measurement objective to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of the measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard setting in the public sector.

² Such concepts of capital include invested money capital, current cash equivalents and physical capital.

BC7.9 The IPSASB considered whether the measurement objective proposed in the Alternative View was appropriate. Some respondents argued that the proposed measurement objective was too aligned to current value measures. However, the IPSASB formed a view that the reference to “cost of services” provides a sufficient link to historical cost, because the cost of services can be determined using both historical cost and current value measures. The IPSASB therefore adopted the following measurement objective with only a minor modification from that proposed in the Alternative View:

To select those measurement bases that most fairly reflect the cost of services, operational capacity, and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC7.10 The IPSASB also noted that the disadvantages of using different measurement bases may be minimized by:

- Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and
- Requiring transparent presentation and disclosure to ensure that the measurement bases used, and the amounts reported on each basis are clear.

BC7.11 The IPSASB reaffirmed the need for a measurement objective and the existing wording during the Limited-scope Update project.

Initial Measurement

BC7.12 Some respondents to ED 76 expressed a view that the IPSASB had not distinguished measurement at recognition (initial measurement) from measurement subsequent to recognition (subsequent measurement). The IPSASB therefore decided to insert a sub-section dealing with initial measurement. This clarifies that initial measurement is at transaction price unless no transaction price data are available or there is another more representationally faithful measurement basis. In such a case, a deemed cost is used on which requirements and guidance are provided at the standards level.

BC7.13 Historical cost is the transaction price plus transaction costs for an asset or minus transaction costs for a liability. Transaction costs can be significant, and their omission might impair the usefulness of the financial statements. The IPSASB considered the correct approach for transaction costs for a liability. The IPSASB agreed that deducting transaction costs from the transaction price is appropriate as it reflects the economics of the liability. For example, an entity borrows 1,000,000 CU of which transaction costs amount to 100,000 CU. The historical cost is 900,000 CU. This is because immediately after receiving the 1,000,000 CU, the transaction costs of 100,000 CU are repaid to the counterparty, leaving the entity with 900,000 CU. The transaction costs of 100,000 CU are included in the interest expense over the term of the instrument as the carrying amount of 900,000 CU is accreted to 1,000,000 CU on the settlement date.

The Subsequent Measurement Framework

BC7.14 Chapter 7 of the 2014 Conceptual Framework did not explicitly identify measurement levels. The IASB’s 2018 Conceptual Framework for Financial Reporting distinguishes three measurement levels:

- (a) Measures or Categories of Measurement Bases (the latter term is used in the IASB's Basis for Conclusions);
- (b) Measurement Bases; and
- (c) Measurement Techniques.

BC7.15 The IPSASB considered that distinguishing different levels, and building on the IASB's approach, would provide an analytical framework to inform the development of measurement requirements and guidance. As the distinction between measures and measurement bases might be ambiguous, the following three levels were adopted for ED 76 and ED 77, *Measurement*:

- (a) **Measurement Models:** broad approaches for measuring assets and liabilities for inclusion in the financial statements.
- (b) **Measurement Bases:** specific ways of measuring assets and liabilities that provide the information that best meets the qualitative characteristics under the selected measurement model.
- (c) **Measurement Techniques:** methods to estimate the amount at which an asset or liability is measured under the selected measurement basis.

BC7.16 In identifying measurement models and measurement bases, the IPSASB reaffirmed the view in the 2014 Conceptual Framework that there is not a single measurement basis that best meets the measurement objective. Consistent with this view, the IPSASB concluded there is not one measurement model that best meets the measurement objective. Consequently, the IPSASB identified the historical cost model as one of the two models. and retained historical cost as a measurement basis for both assets and liabilities.

BC7.17 Some respondents to ED 76 challenged the term "Measurement Hierarchy" because hierarchy implies a prioritization of measurement models, measurement bases and measurement techniques. It was not the IPSASB's intention to imply such a prioritization. The IPSASB therefore decided to rename the "Measurement Hierarchy" as the "Subsequent Measurement Framework". This change also emphasized that the Conceptual Framework refers to subsequent measurement rather than initial measurement.

BC7.18 The IPSASB considered whether to identify and discuss measurement techniques in the Conceptual Framework. The IPSASB concluded that a detailed analysis of measurement techniques is not appropriate for the Conceptual Framework and that guidance should be provided at the standards level. Therefore, in its discussion of the Subsequent Measurement Framework, the Conceptual Framework explains that measurement techniques are needed to operationalize current value measurement bases. However, the Conceptual Framework does not identify or analyze specific techniques. Guidance on measurement techniques is provided at the standards level.

Entity-Specific and Non-Entity-Specific Values, Observability in a Market, Entry and Exit Values

BC7.19 The 2014 Conceptual Framework classified measurement bases as: (i) entity-specific or non-entity-specific, (ii) whether they provide information that is observable in an orderly market; and (iii) whether they provide entry or exit values. The IPSASB considered that the distinction between entity-specific and non-entity-specific measurement bases and the relationship with the measurement objective and qualitative characteristics is meaningful. It indicates whether

measurement bases reflect the expectations of market participants and impacts the selection of a measurement basis.

- BC7.20 The IPSASB decided that the characteristic of observability in a market is relevant to the selection of a measurement technique once a measurement basis has been selected, rather than directly to the measurement basis itself. Consistent with the conclusion in paragraph BC7.18 that detailed guidance on measurement techniques is more appropriately addressed at the standards level, the IPSASB decided not to retain a discussion of observability in a market in the Conceptual Framework, but to refer to the “availability of observable data” as an example of a factor in the selection of a measurement technique.
- BC7.21 For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. For liabilities, entry values usually reflect the amount at which a liability is incurred and exit values reflect the amount required to fulfill or transfer a liability. In rarer cases, entry values reflect the amount at which a liability is assumed and exit values reflect the amount to release an entity from an obligation.
- BC7.22 IPSASB is of the view that the key factor in the selection of a current value measurement basis is the measurement objective; in particular, whether an asset is primarily held for its operational or financial capacity and the characteristics of a liability. The IPSASB concluded that the distinction between entry and exit values is useful in deciding whether a measure includes transaction costs, and, if so, whether on the acquisition or sale of an asset or incurrence or settlement of a liability. The Conceptual Framework therefore includes a high-level discussion on entry and exit values but does not provide a tabular classification of specific measurement bases as entry or exit.

Approach to Identifying Measurement Bases Addressed in the Conceptual Framework

- BC7.23 In revising Chapter 7 the IPSASB identified two approaches to the identification of, and guidance on, measurement bases. The first approach would provide guidance on a large number of measurement bases regardless of whether they are used in current standards-level literature or whether it is likely that they will be used in the development of future standards. The second approach would focus on the most commonly used measurement bases.
- BC7.24 In ED 76 the IPSASB decided to adopt the second approach as it considered that this approach is more helpful for the IPSASB in its standards development and for preparers of financial statements in determining accounting policies for transactions and events for which there are no standards-level requirements and guidance. The IPSASB reconsidered this approach in the light of the views by some respondents to ED 76 who advocated the broader approach. The IPSASB acknowledged the case for providing guidance on a more comprehensive range of measurement bases but concluded that the benefits of a more concise approach outweighed any disadvantages. In particular the IPSASB concluded that the inclusion of measurement bases that might be rarely, and in some cases, never used at the standards level could be confusing to users. The IPSASB also acknowledged that the fact that a measurement basis is not discussed in Chapter 7 does not preclude its adoption at the standards level. In such cases the reason for adoption of such a measurement basis will be explained in the Basis for Conclusions of the standard.

Measurement Bases for Assets*Historical Cost*

- BC7.25 Historical cost is a measurement basis applied in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft that preceded the 2014 version of the Conceptual Framework advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost information. They also noted that, because historical cost is widely adopted in combination with other measurement bases, its continued use avoids the implementation costs that would arise if a future revision of a current standard that requires or permits historical cost were to require the use of a different measurement basis.
- BC7.26 Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.
- BC7.27 The IPSASB agreed that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity and accepted that users are interested in the cost of services based on actual transactions. Historical cost provides information on how much services actually cost in the reporting period, rather than how much they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.
- BC7.28 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results with the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that, where this is the case, historical cost enhances comparison against budget.
- BC7.29 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both accountability and decision-making purposes. As historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.
- BC7.30 In finalizing the revised Chapter 7 the IPSASB reviewed the wording of the definition of historical cost. The IPSASB decided that the definition could be simplified and clarified by:
- (a) Adding “construct” to “acquire and develop” and “construction” to “acquisition and development”, as construction is a way of creating an asset;
 - (b) Removing the phrase “which is the cash or cash equivalents, or other consideration given” because it is unnecessary; and
 - (c) Including “transaction costs” as a component of the definition and providing a description of “transaction costs”. This is because the IPSASB was persuaded by the argument that,

for many transactions, transaction costs are a significant component of the amount of initial measurement.

Current Operational Value

BC7.31 The 2014 Conceptual Framework included replacement cost as a current value measurement basis, envisaging that it would be appropriate for specialized assets. As noted in paragraph BC7.39 the IPSASB adopted the IASB's exit-based definition of fair value in the updated Conceptual Framework. The cost approach, a measurement technique for fair value in IFRS 13, *Fair Value Measurement*, has some similarities to replacement cost. These inter-related factors necessitated the development of a measurement basis that can be applied to assets held primarily for operational capacity.

BC7.32 The IASB's 2018 Conceptual Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB considered whether current cost should be adopted as a current value measurement basis for assets that are primarily held for operational capacity (see paragraph BC7.100 for a discussion of current cost for liabilities). The IPSASB formed a view that a measurement basis similar to current cost is relevant in a public sector context, potentially for specialized and non-specialized assets held for operational capacity. However, rather than the cost of an equivalent asset in the IASB's definition of current cost, the IPSASB formed a view such a measurement basis should reflect an asset's value in its existing use. The IPSASB decided to use the term 'current operational value' for this measurement basis.

BC7.33 Current operational value was developed for assets primarily held for their operational capacity. For non-specialized assets, it can be supported by market-based measurement techniques with similarities to market value. For more specialized assets, measurement techniques to determine the value of the asset may be applied. ED 76 therefore proposed current operational value as a measurement basis for assets primarily held for operational capacity with the following definition:

The value of an asset used to achieve the entity's service delivery objectives at the measurement date.

BC7.34 ED 76 also included an alternative view (AV). The main points of the AV were that:

- The definition was unclear mainly because of the ambiguity of the word 'value';
- The lack of clarity in the definition risked not achieving the qualitative characteristics of financial reporting; and
- The definition should have focused on the cost of replacing an asset used for its service potential.

BC7.35 The AV proposed the following definition:

The cost to replace the service potential embodied in an asset at the measurement date.

BC7.36 Most respondents to ED 76 supported the view that fair value is inappropriate for assets that are primarily held for their operational capacity and therefore that a public sector specific current value for assets should be developed. Some respondents shared the view of the AV that the proposed definition was unclear. Other respondents considered that the rationale for current operational value should be clearer.

BC7.37 The IPSASB responded to these points by adopting a definition which focuses on both an asset and the service potential of an asset:

The amount the entity would pay for the remaining service potential of an asset at the measurement date.

BC7.38 Guidance clarifies the assumptions that underpin current operational value. These assumptions are stated in paragraph 7.38. They indicate that measurement under current operational value estimates the amount an entity would pay for the remaining service potential of an asset in the least costly manner. Current operational value is based on the asset in its existing use and in its existing location. .

Fair Value

BC7.39 Shortly before the 2014 Conceptual Framework was finalized the IASB approved IFRS 13. IFRS 13 adopted an explicitly exit-based definition of fair value. This differed from the definition of fair value in the IPSASB’s literature, which was aligned with the pre-IFRS 13 definition of fair value. The IPSASB decided to rename its fair value definition as “market value”. The aim was to avoid two global standard setters using the term “fair value” with different definitions in future standards development. Unlike the revised IASB definition of fair value, market value could be appropriate for non-specialized physical assets held for operational capacity as well as assets held for financial capacity. Since 2014, the IPSASB’s standards-level work, especially that on financial instruments, had led the IPSASB to conclude that a non-entity-specific current value measurement basis is necessary for both assets and liabilities. This view was reflected in IPSAS 41, *Financial Instruments*, and in the illustrative exposure draft in Consultation Paper, *Measurement*.

BC7.40 Therefore, the updated measurement chapter therefore includes fair value for both assets and liabilities, based on the IASB’s exit-based definition of fair value. Because of its exit-based nature and the assumptions that underpin it, the IPSASB concluded that fair value is inappropriate for assets primarily held for their operational capacity. The IPSASB is aware that fair value has been adopted in some jurisdictions as a current value measurement for such assets and has been adapted for these assets by, for example, reinterpreting the “highest and best use” principle. The IPSASB concluded that such adaptations would mean losing consistency with the IASB’s guidance.

Measurement Bases and Approaches for Assets not included in the Updated Conceptual Framework

BC7.41 The following measurement bases and approaches for assets in the 2014 Conceptual Framework have not been included in the updated version:

- Market value;
- Replacement cost; and
- Net selling price.

BC7.42 Value in use was included as a measurement basis in the 2014 Conceptual Framework. It has not been included as a measurement basis in the updated Conceptual Framework, which includes a general discussion of value in use.

- BC7.43 The following measurement bases were considered for inclusion in the 2014 Conceptual Framework but rejected:
- Symbolic value;
 - Synergistic value; and
 - Equitable value.
- BC7.44 The IPSASB did not further consider these measurement bases in the Limited-scope Update project to revise Chapter 7.
- BC7.45 In developing the 2014 Conceptual Framework the IPSASB also considered and rejected the deprival value model, which is an approach to select a measurement basis, rather than a measurement basis in its own right.

Market Value

- BC7.46 Market value for assets was defined in the 2014 Conceptual Framework as:
- The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.*
- BC7.47 In light of the decision to include fair value and current operational value as measurement bases under the current value model, the IPSASB considered whether it was necessary to retain market value as a measurement basis for assets. The IPSASB considered that fair value is the current value measurement basis that best meets the measurement objective where assets are held for financial capacity and for determining the amount of a liability that can be transferred to a third party under current market conditions. Current operational value is the current value measurement basis that best meets the measurement objective where assets are held for operational capacity, because it does not include a "highest and best use" market-based assumption, and, as an entity-specific measurement basis, it does not reflect the expectations of market participants. The IPSASB therefore concluded that it was not necessary to retain market value as a measurement basis. Market-based techniques can be used to operationalize the fair value and current operational value measurement bases. Guidance on these techniques is provided at the standards level.
- BC7.48 The large majority of respondents to ED 76 supported the IPSASB's reasons for the non-retention of market value. The IPSASB confirmed that market value should not be included in the revised Chapter 7.

Replacement Cost

- BC7.49 Replacement cost was defined in the 2014 Conceptual Framework, as:
- The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.*
- BC7.50 In light of the decision to include current operational value as the most appropriate current value measurement basis for operational assets, the IPSASB considered whether it was necessary to retain replacement cost as a measurement basis. The IPSASB considered that the rationale for including replacement cost as a measurement basis in the 2014 Conceptual Framework was convincing, in particular that an appropriate measurement basis for specialized assets should provide information on the cost of the service potential that is attributable to the

asset. As noted above, current operational value is a measurement basis that can be applied to both specialized and non-specialized assets. Measurement techniques can be selected appropriate to the nature of the asset.

- BC7.51 Most respondents to ED 76 supported the non-retention of replacement cost. Those who opposed or expressed reservations about the change considered that it had been insufficiently explained or that current operational value had not been adequately developed in ED 76. Both of these reservations were addressed in the finalized Chapter 7.
- BC7.52 The IPSASB acknowledged these points, which were taken into account in the development and finalization of current operational value (see paragraphs BC 7.31-BC 7.38). There was also a view that fair value is appropriate for non-operational assets. As noted in paragraph BC 7.40 the IPSASB confirmed its view that fair value is inappropriate for assets primarily held for their operational capacity and that there should be a public sector specific current value measurement basis for such assets.
- BC7.53 Some of the respondents who supported the approach proposed in ED 76, explicitly acknowledged the IPSASB's view that replacement cost would duplicate the new measurement basis and its retention would be confusing. At the standards level, the cost approach, which reflects aspects of replacement cost, is also being brought into both current operational value and fair value as a measurement technique at the standards level. The IPSASB therefore confirmed its view that replacement cost should not be included in the updated Chapter 7.

Net Selling Price

- BC7.54 Net selling price is an entity-specific measurement basis that was defined in the 2014 Conceptual Framework as:
- The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.*
- BC7.55 In its project on non-current assets and discontinued operations, the IPSASB considered whether net selling price should be included as an alternative measure to fair value less costs to sell in determining the recoverable amount of assets held for sale where a sale is on negotiated rather than market terms. The IPSASB rejected inclusion of net selling price, largely on accountability grounds, concluding that fair value is more appropriate for the determination of the recoverable amount of an asset, as it generally meets the qualitative characteristics of financial reporting better than net selling price.
- BC7.56 The IPSASB considered the case for an entity-specific, current value measurement basis for assets, as an alternative to fair value where there is not an orderly market, such as a distressed or negotiated sale. In some jurisdictions events such as financial crises and pandemics have increased the likelihood of such sales. Sale prices will be affected by the impact of such events on general market conditions and therefore reflected in fair value measurements. Aside from general price effects, when sale price is estimated at below fair value it is important that the impact of such a decision on an entity's financial position and financial performance is made fully transparent by disclosing the extent of the losses likely to be made on sale. This can be achieved by showing the difference between an asset's fair value and the sale price. The IPSASB therefore concluded that, in light of the limited information provided by net selling price, its retention in the IPSASB Conceptual Framework was unnecessary.
- BC7.57 Following comments from respondents to ED 76, the IPSASB further analyzed the case for and against retention of net selling price. The IPSASB noted that:

- Net selling price is not defined in the IASB's 2018 Conceptual Framework.
- Net realizable value is used in IPSAS 12, *Inventories*. However, despite superficially similar terminology, net realizable value, which is not included in the IASB's 2018 Conceptual Framework, is much closer to the IASB's current definition of fair value than net selling price.

BC7.58 The IPSASB concluded that the case for retention of net selling price is not persuasive and confirmed that it should not be included in a revised Chapter 7.

Value in Use

BC7.59 Value in use was defined in the 2014 Conceptual Framework as:

The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

BC7.60 The IPSASB considered whether to retain value in use as a current value measurement basis for assets in the Conceptual Framework.

BC7.61 The IPSASB noted that the definition of value in use in the 2014 Conceptual Framework was not consistent with that in the IASB's Conceptual Framework, because it is not limited to the cash-generating context and includes a reference to "service potential". Since approval of the Conceptual Framework the IPSASB has placed increased emphasis on the consistent use of terminology and definitions by global standard setters.

BC7.62 The IPSASB acknowledged the importance of value in use in assessments of impairment losses (including reversal of impairment losses or impairment gains). The IPSASB also noted that value in use requires complex and subjective projections of cash flows generated by an asset, or of the service potential provided by an asset. Complexity increases where assets generate cash flows in combination with other assets.

BC7.63 The IPSASB further acknowledged that some assets both generate cash flows and are used in the delivery of services. In such circumstances the IPSASB reaffirmed that, for financial reporting purposes, preparers of financial statements need to make a professional judgment of the primary purpose for which an asset is held. Under the current value model, where assets are primarily held for operational capacity, current operational value is applied; where assets are primarily held for financial capacity fair value is applied. The continued applicability of value in use is therefore likely to be limited to impairment.

BC7.64 In light of the above factors, the IPSASB decided to replace the definition of value in use with a limited discussion in the proposed updated Chapter 7 in ED 76.

BC7.65 Most respondents to ED 76 supported the IPSASB's proposed revised approach. Respondents who opposed the IPSASB's proposal to reduce the number of measurement bases discussed in the Conceptual Framework (see paragraph BC 7.23 and 7.24) advocated retention on the grounds that value in use should be available to the IPSASB and preparers of financial statements for transactions and events apart from impairment. No examples of such circumstances were provided.

BC7.66 Conversely, it was suggested that value in use should not be addressed in the Conceptual Framework because its applicability is limited to impairment and that guidance should be limited to the standards level.

- BC7.67 The IPSASB concluded that, while its wider future application cannot be ruled out, value in use's relevance is likely to be limited to impairment. The IPSASB also concluded that the importance of value in use to impairment justifies the inclusion of guidance in the Conceptual Framework. The IPSASB therefore decided to retain the approach in ED 76.
- BC7.68 Some respondents suggested that the IPSASB should clarify the differences between value in use and current operational value. The IPSASB noted that value in use is an exit value and therefore includes the proceeds of sale as a component of the measure. Current operational value is an entry value and therefore does not include the proceeds of sale. As the public sector entities for which the IPSASB develops standards hold most assets for service delivery this analysis reinforced the IPSASB's view that these assets are likely to be measured at current operational value.

Symbolic Values

- BC7.69 In some jurisdictions, certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.
- BC7.70 The IPSASB acknowledged that such an approach is intended to provide useful information. However, in the development of the 2014 Conceptual Framework, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity, or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, *Elements in Financial Statements*, and Chapter 6, *Recognition in Financial Statements*. The IPSASB did not further consider the issue of symbolic values in the Limited Scope Update project.

Equitable Value and Synergistic Value

- BC7.71 The IPSASB considers that the development of conceptual and standards-level projects evaluates the requirements and guidance in International Valuation Standards (IVS) and Government Finance Statistics. In its Limited Scope Update project, the IPSASB evaluated two concepts in IVS as potential measurement bases in the Conceptual Framework—equitable value and synergistic value.
- BC7.72 IVS defines equitable value as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.
- BC7.73 IVS defines synergistic value as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.
- BC7.74 Equitable value has similarities to net selling price and synergistic value relates to unit of account. The IPSASB considered net selling price in the Limited Scope Update project and decided not to retain this measurement basis (see above paragraphs BC7.54-BC7.58). The IPSASB therefore concluded that including equitable value and synergistic value as specific

measurement bases in the Conceptual Framework was unnecessary. The IPSASB did not further consider equitable value and synergistic value in the Limited Scope Update project.

Deprival Value Model

- BC7.75 The 2011 Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, discussed the deprival value model as a rationale for selecting a current value measurement basis. Some respondents expressed reservations—in particular that the model would be costly and impose a disproportionate burden on preparers of financial statements to have to consider a number of possible measurement bases for each asset that is reported. A number of respondents also considered that it is overly complex. A view was also expressed that the deprival value model unduly exaggerates the qualitative characteristic of relevance and neglects the other qualitative characteristics.
- BC7.76 Although the IPSASB recognized that the deprival value model has been adopted successfully in some jurisdictions, the IPSASB acknowledged such reservations in whole or part. The IPSASB therefore included the deprival value model in the 2013 Conceptual Framework Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements*. That Exposure Draft proposed the deprival value model as an optional method of choosing between replacement cost, net selling price, and value in use where it had been decided to use a current measurement basis, but the appropriate basis could not be identified by reference to the objectives of financial reporting and the qualitative characteristics.
- BC7.77 While a minority of respondents to the 2013 Conceptual Framework Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model's complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model—if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the deprival value model in the Conceptual Framework. The IPSASB did not further consider the deprival value model in the Limited-scope Update project.

Measurement Basis for Liabilities in the Updated Conceptual Framework

Fair Value

- BC7.78 Paragraphs BC 7.39 and BC7.40 discuss the inclusion of fair value for assets in the updated Conceptual Framework. Consistent with the analysis for assets the IPSASB decided that fair value is an appropriate measurement basis for many liabilities depending on their characteristics. The updated measurement chapter therefore includes fair value as a measurement basis for liabilities.

Cost of Fulfillment

- BC7.79 The 2014 Conceptual Framework defined cost of fulfillment as:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

- BC7.80 In its 2018 Framework the IASB included fulfillment³ value defined as:
The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.
- BC7.81 In light of this development, the IPSASB considered whether to (a) adopt the term ‘fulfillment value’ rather than cost of fulfillment while retaining the original definition of cost of fulfillment (b) adopt the term ‘fulfillment value’ and the definition in the IASB Framework; or (c) follow another approach.
- BC7.82 A number of respondents to the IPSASB’s 2019 Consultation Paper, *Measurement*, pointed out that fulfillment value reflects a risk premium, whereas cost of fulfillment is silent on risk premia. A risk premium, which is also known as a risk margin or risk adjustment, is the price for bearing the uncertainty inherent in the cash flows. The IPSASB concluded that using the term ‘fulfillment value’ with a definition different to that of the IASB was inappropriate. The IPSASB also decided that the inclusion of a risk premium should be determined at the standards level.
- BC7.83 The IPSASB concluded that the existing definition of cost of fulfillment should be retained in ED 76. The IPSASB acknowledged that the term itself is similar to fulfillment value but concluded that provided it is clear that cost of fulfillment does not imply inclusion of a risk premium the term should be retained with its existing definition rather than adopting a new term such as ‘cost of settlement’.
- BC7.84 The IPSASB also considered whether the definition should retain the assumption that the obligations represented by the liability are fulfilled in the least costly manner. The IPSASB acknowledged that there may be circumstances where, for transparent public policy reasons, liabilities may not be fulfilled in the least costly manner. However, the IPSASB took the view that, from an accountability perspective, the assumption should be retained and concluded that the definition of cost of fulfillment should not be modified. It is possible that there may be cases where a reporting entity decides to fulfill an obligation in a manner that is not the least costly. In such circumstances it is important that for accountability purposes this is disclosed.
- BC7.85 There was strong support for cost of fulfillment by respondents to ED 76. Consultation on ED 76 did not identify issues previously unconsidered by the IPSASB. The IPSASB therefore confirmed the retention of cost of fulfillment.

Measurement Bases for Liabilities not included in Updated Conceptual Framework

- BC7.86 The following measurement bases and approaches for liabilities in the 2014 version of the Conceptual Framework have not been included in the updated version:
- Market value;
 - Assumption price; and
 - Cost of release.

³ The IPSASB uses the word ‘fulfillment’. The IASB uses the word ‘fulfilment’. This reflects usage respectively in North America and the United Kingdom. Hereafter the word ‘fulfillment’ is used.

Market Value

- BC7.87 Market value for liabilities was defined in the 2014 version of the Conceptual Framework as:
The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.
- BC7.88 In light of the inclusion of fair value the IPSASB concluded that the retention of market value was unnecessary, as it would overlap with fair value and its inclusion would be confusing.
- BC7.89 Following consultation on ED 76 the IPSASB confirmed that there was no case for retaining market value.

Assumption price

- BC7.90 Assumption price was defined in the 2014 Conceptual Framework as:
The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.
- BC7.91 Assumption price is an entity-specific measurement basis included in the 2014 Conceptual Framework. It has not been used in the IPSASB literature at the standards level as of 2021. It has some similarities to current cost for liabilities, as defined by the IASB in its 2018 Conceptual Framework, but refers to a liability of a counterparty, rather than a liability of the reporting entity.
- BC7.92 The IPSASB assessed the case for retention of assumption price. The inclusion of assumption price (along with cost of release discussed in paragraphs BC 7.96- BC 7.100) was on the grounds that there may be limited circumstances where it might meet the measurement objective, for example in the case that a government takes on liabilities at concessionary rates.
- BC7.93 The IPSASB concluded that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit potentially material. In such circumstances fair value could be used as the measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.
- BC7.94 Following comments from respondents to ED 76 the IPSASB reconsidered the case for and against the retention of assumption price. The IPSASB noted that:
- Neither the IASB's 2010 Conceptual Framework nor the 2018 Conceptual Framework defined or described assumption price.
 - In those limited cases where there is an "assumption price" it would be the same as historical cost. Following assessment of a day one gain or loss, it would then be superseded by cost of fulfillment in the year-end financial statements.
- BC7.95 The IPSASB therefore confirmed that assumption price should not be retained in the Conceptual Framework.

Cost of Release

- BC7.96 Cost of release was defined in the 2014 version of the Conceptual Framework as the amount of an immediate exit from an obligation—either the amount a creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Cost of release is entity-specific and does not assume an orderly market. At the standards level the measurement requirements and guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, include a grey letter reference to 'transfer(ing) an obligation at the

reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. This reference in IPSAS 19.45 is consistent with cost of release.

BC7.97 The IPSASB noted that the IASB had concluded that it was unnecessary to include cost of release in its 2018 Conceptual Framework because it is relatively unusual for entities to obtain release from liabilities, rather than fulfilling them.

BC7.98 The 2014 Conceptual Framework justified the inclusion of cost of release on the grounds that there may be limited circumstances where it might meet the measurement objective. The IPSASB concluded that standards development since 2014 has not identified sufficient examples of circumstances where cost of release is appropriate to justify retention. The IPSASB therefore decided not to include cost of release in the updated Chapter 7 of the Conceptual Framework.

BC7.99 Following comments from respondents to ED 76 the IPSASB reconsidered the case for and against the retention of cost of release. The IPSASB noted that:

- The IASB considered cost of release in the development of the Measurement chapter of the 2018 Conceptual Framework but did not include it for the reasons identified above. The IPSASB considered that instances of entities obtaining release from liabilities, rather than fulfilling them, are similarly rare in the public sector.
- Cost of release gives rise to accountability and audit/assurance issues related to the qualitative characteristic of verifiability. Negotiations with a counterparty or third party are likely to be sensitive and confidential. Unless there is a binding arrangement with a counterparty or third party, the basis for determining cost of release may be questionable. From an accountability perspective cost of release gives rise to public interest considerations, as it may be of questionable propriety for public sector entities to settle obligations other than by fulfilling them.
- The responses to the Consultation Paper, *Measurement*, issued in April 2019 had indicated little support for including guidance on cost of release.

BC7.100 The IPSASB therefore confirmed that cost of release should not be retained in the Conceptual Framework.

Current Cost

BC7.101 Paragraph BC 7.32 discusses current cost as defined by the IASB for assets in its Conceptual Framework. Noting that in the IASB's Conceptual Framework the definition of current cost includes liabilities as well as assets, the IPSASB considered whether to include current cost as a measurement basis for liabilities. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that such a measurement basis might provide useful information for managerial purposes but considered that its practical application for financial reporting is limited, as cost of fulfillment better meets the qualitative characteristics of financial reporting. The IPSASB therefore concluded that current cost for liabilities should not be included in the Conceptual Framework.

Own Credit Risk

- BC7.102 The Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, sought the views of respondents on the treatment of an entity's own credit risk and changes in value attributable to changes in an entity's own credit risk.
- BC7.103 The majority of respondents who commented on this issue considered that it is more appropriate to deal with it at the standards level rather than in the Conceptual Framework. The IPSASB concurred in this view and therefore did not include a discussion of own credit risk in the Conceptual Framework. The IPSASB noted that where a market-based value is used to measure a liability it is necessary to consider the treatment of the entity's own credit risk. The IPSASB did not redeliberate this issue in the Limited-scope Update.

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IFRS[®]

Accounting

March 2023

Exposure Draft

IFRS[®] Accounting Standard

Amendments to the Classification and Measurement of Financial Instruments

Proposed amendments to IFRS 9 and IFRS 7

Comments to be received by 19 July 2023

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Exposure Draft IASB/ED/2023/2 is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **19 July 2023** 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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AMENDMENTS TO THE CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

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Introduction

Why is the IASB publishing this Exposure Draft?

- IN1 The International Accounting Standards Board (IASB) carried out a post-implementation review (PIR) of the classification and measurement requirements in IFRS 9 *Financial Instruments* and related requirements in IFRS 7 *Financial Instruments: Disclosures*, in accordance with the IASB's due process, as described in the IFRS Foundation *Due Process Handbook*.
- IN2 After analysing the evidence gathered in the PIR, the IASB concluded that, in general, the requirements 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.
- IN3 The matters the IASB identified as requiring action as soon as possible were:
- (a) accounting for the settlement of a financial asset or a financial liability using an electronic payment system. This matter originated from a request to the IFRS Interpretations Committee (Committee). Respondents commenting on the Committee's tentative agenda decision were concerned about the potential outcomes of finalising the agenda decision, especially in the context of the settlement of financial liabilities.
 - (b) applying the requirements for assessing contractual cash flow characteristics to financial assets with features linked to environmental, social and governance (ESG) concerns. PIR participants said that, because the global market for these financial assets is growing rapidly, clarification is required to avoid diversity in practice becoming established.
- IN4 The IASB also identified other matters in the PIR requiring standard-setting. Although these matters when considered individually were not of a high enough priority to justify immediate action, the IASB decided that it would be more efficient to issue a single exposure draft covering proposed amendments to the classification and measurement requirements in IFRS 9 (see paragraph IN5) and disclosure requirements in IFRS 7 (see paragraph IN6). In deciding to issue a single exposure draft, the IASB considered stakeholders' capacity to provide high-quality feedback on the proposals and to implement any resulting changes to IFRS 9 and IFRS 7.

Proposals in this Exposure Draft

- IN5 To address the matters arising from the PIR, this Exposure Draft proposes amendments to IFRS 9. In order of their proposed placement in the Standard, these amendments concern:

AMENDMENTS TO THE CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

- (a) derecognition of a financial liability settled through electronic transfer –to clarify that an entity is required to apply settlement date accounting when derecognising a financial asset or a financial liability; and to permit an entity to deem a financial liability that is settled using an electronic payment system to be discharged before the settlement date if specified criteria are met.
- (b) classification of financial assets –to clarify the application guidance for assessing the contractual cash flow characteristics of financial assets, including:
 - (i) financial assets with contractual terms that could change the timing or amount of contractual cash flows, for example, those with ESG-linked features;
 - (ii) financial assets with non-recourse features; and
 - (iii) financial assets that are contractually linked instruments.

IN6 This Exposure Draft also proposes to make amendments or additions to the disclosure requirements in IFRS 7 for:

- (a) investments in equity instruments designated at fair value through other comprehensive income; and
- (b) financial instruments with contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event.

Next step

IN7 The IASB will consider any comments it receives on the Exposure Draft before 19 July 2023. It will then decide whether to proceed with the proposed amendments.

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 should be confined to the matters addressed in this Exposure Draft.

However, respondents need not answer all the questions in this invitation to comment.

Questions for respondents

Question 1—Derecognition of a financial liability settled through electronic transfer

<p>Paragraph B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity.</p>

<p>Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB’s rationale for this proposal.</p>

<p>Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?</p>

Question 2—Classification of financial assets—contractual terms that are consistent with a basic lending arrangement

Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess:

- (a) interest for the purposes of applying paragraph B4.1.7A; and
- (b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10.

The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Question 3—Classification of financial assets—financial assets with non-recourse features

The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term ‘non-recourse’.

Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features.

Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Question 4—Classification of financial assets—contractually linked instruments

The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21–B4.1.26 of IFRS 9.

The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.

Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Question 5—Disclosures—investments in equity instruments designated at fair value through other comprehensive income

For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to:

- (a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and
- (b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period.

Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Question 6—Disclosures—contractual terms that could change the timing or amount of contractual cash flows

Paragraph 20B of the draft amendments to IFRS 7 proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C).

Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Question 7—Transition

Paragraphs 7.2.47–7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments.

Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Deadline

The IASB will consider all comments received in writing by 19 July 2023.

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 do not normally grant such requests unless 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.

[Draft] Amendments to IFRS 9 *Financial Instruments*

Paragraphs 7.1.11 and 7.2.47–7.2.49 and the heading before paragraph 7.2.47 are added. For ease of reading these paragraphs have not been underlined.

7.1 Effective date

...

- 7.1.11 *Amendments to the Classification and Measurement of Financial Instruments*, which amended IFRS 9 and IFRS 7, issued in March 2023, added paragraphs 7.2.47–7.2.49, B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A, B4.1.17A and B4.1.20A and amended paragraphs B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23. An entity shall apply these amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact and apply all the amendments at the same time.

7.2 Transition

...

Transition for *Amendments to the Classification and Measurement of Financial Instruments*

- 7.2.47 An entity shall apply *Amendments to the Classification and Measurement of Financial Instruments* retrospectively, in accordance with IAS 8, except as specified in paragraphs 7.2.48–7.2.49.
- 7.2.48 An entity is not required to restate prior periods to reflect the application of these amendments. An entity may restate prior periods if, and only if, it is possible to do so without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments. This difference is recognised in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.
- 7.2.49 In the reporting period that includes the date of initial application of these amendments, an entity shall disclose for each class of financial assets that changed measurement category as a result of applying the amendments:
- (a) the previous measurement category and carrying amount determined immediately before the entity applied these amendments; and
 - (b) the new measurement category and carrying amount determined immediately after the entity applied these amendments.

Appendix B Application Guidance

Paragraphs B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A, B4.1.17A and B4.1.20A and the heading before paragraph B3.1.2A are added. Paragraphs B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23 are amended. Paragraphs B4.1.7A, B4.1.10, B4.1.15 and B4.1.22 are not amended but are included for ease of reference. New text is underlined and deleted text is struck through.

Recognition and derecognition (Chapter 3)

Initial recognition (Section 3.1)

...

Date of initial recognition or derecognition

B3.1.2A When recognising or derecognising a financial asset or financial liability, an entity shall apply settlement date accounting (see paragraph B3.1.6) unless paragraph B3.1.3 applies or an entity elects to apply paragraph B3.3.8.

...

Derecognition of financial liabilities (Section 3.3)

...

B3.3.8 Notwithstanding the requirement in paragraph B3.1.2A to apply settlement date accounting, an entity is permitted to deem a financial liability (or a part of a financial liability)—that will be settled with cash using an electronic payment system—to be discharged before the settlement date if, and only if, the entity has initiated the payment instruction and:

- (a) the entity has no ability to withdraw, stop or cancel the payment instruction;
- (b) the entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and
- (c) the settlement risk associated with the electronic payment system is insignificant.

B3.3.9 For the purposes of applying paragraph B3.3.8(c), settlement risk is insignificant if the characteristics of the electronic payment system are such that completion of the payment instruction follows a standard administrative process and the time between initiating a payment instruction and the cash being delivered is short. However, settlement risk would not be insignificant if the completion of the payment instruction is subject to the entity's ability to deliver cash on the settlement date.

B3.3.10 An entity that elects to apply paragraph B3.3.8 to the settlement of a financial liability using an electronic payment system shall apply the requirements in that paragraph to all settlements made through the same electronic payment system.

Classification (Chapter 4)

Classification of financial assets (Section 4.1)

...

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

...

B4.1.7A Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs B4.1.9A–B4.1.9E) and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. In extreme economic circumstances, interest can be negative if, for example, the holder of a financial asset either explicitly or implicitly pays for the deposit of its money for a particular period of time (and that fee exceeds the consideration that the holder receives for the time value of money, credit risk and other basic lending risks and costs). However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

...

B4.1.8A In assessing whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement, an entity may have to consider the different elements of interest separately. The assessment of interest focuses on *what* an entity is being compensated for, rather than *how much* compensation an entity receives. Contractual cash flows are inconsistent with a basic lending arrangement if they include compensation for risks or market factors that are not typically considered to be basic lending risks or costs (for example, a share of the debtor’s revenue or profit), even if such contractual terms are common in the market in which the entity operates. Furthermore, a change in contractual cash flows is inconsistent with a basic lending

arrangement if it is not aligned with the direction and magnitude of the change in basic lending risks or costs.

...

Contractual terms that change the timing or amount of contractual cash flows

B4.1.10 If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows. The entity may also need to assess the nature of any contingent event (ie the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount outstanding because of the relationship between missed payments and an increase in credit risk. (See also paragraph B4.1.18.)

B4.1.10A In applying paragraph B4.1.10, an entity shall assess whether contractually specified changes in cash flows following the occurrence (or non-occurrence) of any contingent event would give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment shall be done irrespective of the probability of the contingent event occurring (except for non-genuine contractual terms as described in paragraph B4.1.18). For a change in contractual cash flows to be consistent with a basic lending arrangement, the occurrence (or non-occurrence) of the contingent event must be specific to the debtor. The occurrence of a contingent event is specific to the debtor if it depends on the debtor achieving a contractually specified target, even if the same target is included in other contracts for other debtors. However, the resulting contractual cash flows must represent neither an investment in the debtor nor an exposure to the performance of specified assets (see also paragraphs B4.1.15–B4.1.16).

...

B4.1.13 The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
<p>...</p> <p><u>Instrument EA</u></p> <p><u>Instrument EA is a loan with an interest rate that is periodically adjusted by a specified number of basis points if the debtor achieves a contractually specified reduction in greenhouse gas emissions during the preceding reporting period.</u></p>	<p>...</p> <p><u>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding.</u></p> <p><u>The occurrence of the contingent event (achieving a contractually specified reduction in greenhouse gas emissions) is specific to the debtor. The contractual cash flows arising from the occurrence (or non-occurrence) of the contingent event are in all circumstances solely payments of principal and interest on the principal amount outstanding.</u></p> <p><u>The contractual cash flows represent neither an investment in the debtor nor an exposure to the performance of specified assets.</u></p>

- B4.1.14 The following examples illustrate contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
<p>...</p> <p><u>Instrument I</u></p> <p><u>Instrument I is a loan with an interest rate that is periodically adjusted when a market-determined carbon price index reaches a contractually defined threshold.</u></p>	<p>...</p> <p><u>The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.</u></p> <p><u>The contractual cash flows change in response to a market factor (the carbon price index), which is not a basic lending risk or cost and is therefore inconsistent with a basic lending arrangement.</u></p>

- B4.1.15 In some cases a financial asset may have contractual cash flows that are described as principal and interest but those cash flows do not represent the payment of principal and interest on the principal amount outstanding as described in paragraphs 4.1.2(b), 4.1.2A(b) and 4.1.3 of this Standard.
- B4.1.16 This may be the case if the financial asset represents an investment in particular assets or cash flows and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. For example, if the contractual terms stipulate that the financial

asset's cash flows increase as more automobiles use a particular toll road, those contractual cash flows are inconsistent with a basic lending arrangement. As a result, the instrument would not satisfy the condition in paragraphs 4.1.2(b) and 4.1.2A(b). ~~This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (for example, a 'non-recourse' financial asset).~~

B4.1.16A This may also be the case if a financial asset has 'non-recourse' features. A financial asset has non-recourse features if an entity's contractual right to receive cash flows is limited to the cash flows generated by specified assets both over the life of the financial asset and in the case of default. In other words, throughout the life of the financial asset, the entity is primarily exposed to the specified assets' performance risk rather than the debtor's credit risk.

B4.1.17 However, the fact that a financial asset ~~is~~ has non-recourse features does not in itself necessarily preclude the financial asset from meeting the condition in paragraphs 4.1.2(b) and 4.1.2A(b). In such situations, the creditor is required to assess ('look through to') the particular underlying assets or cash flows to determine whether the contractual cash flows of the financial asset being classified are payments of principal and interest on the principal amount outstanding. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.

B4.1.17A When assessing whether the contractual cash flows of a financial asset with non-recourse features are payments of principal and interest on the principal amount outstanding, in accordance with paragraph B4.1.17, an entity may also need to consider factors such as the legal and capital structure of the debtor, including, but not limited to, the extent to which:

- (a) the cash flows generated by the underlying assets are expected to exceed the contractual cash flows on the financial asset being classified; and
- (b) any shortfall in cash flows generated by the underlying assets is expected to be absorbed by subordinated debt or equity instruments issued by the debtor.

...

Contractually linked instruments

B4.1.20 In some types of transactions, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments ~~that create concentrations of credit risk~~ (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer are allocated to the tranche. The prioritisation of payments to the holders of these tranches is established through a waterfall payment structure. That payment structure creates concentrations of credit

risk and results in a disproportionate allocation of losses between the holders of different tranches. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches, which means the tranches have non-recourse features (see paragraph B4.1.16A).

B4.1.20A Some transactions may contain multiple debt instruments without having all of the characteristics described in paragraph B4.1.20. For example, an entity (the creditor) may enter into a secured lending arrangement whereby the debtor (the sponsoring entity) establishes a structured entity which issues senior and junior debt instruments. The debtor may hold the junior debt instrument to provide credit protection to the entity holding the senior debt instrument. Such transactions do not contain multiple contractually linked instruments because the structured entity is created to facilitate the lending transaction from a single creditor. The contractual cash flows of the senior debt instrument in such transactions shall be assessed by applying the requirements in paragraphs B4.1.7–B4.1.19.

B4.1.21 In ~~such~~ transactions that contain multiple contractually linked instruments, as described in paragraph B4.1.20, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:

(a) ...

B4.1.22 An entity must look through until it can identify the underlying pool of instruments that are creating (instead of passing through) the cash flows. This is the underlying pool of financial instruments.

B4.1.23 The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. For the purpose of this assessment, the underlying pool can include financial instruments that are not within the scope of the classification requirements (see Section 4.1 of this Standard), for example, lease receivables that have contractual cash flows that are equivalent to payments of principal and interest on the principal amount outstanding.

...

[Draft] Amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 20B, 20C and 44JJ are added. Paragraph 11A is amended. New text is underlined and deleted text is struck through.

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 IFRS 9, it shall disclose:

- (a) ...
- (b) ...
- (c) the fair value of ~~each~~ such investments at the end of the reporting period.
- (d) ...
- (e) ...
- (f) the amount of change in the fair value of such investments during the period, showing separately the amount of that change related to investments derecognised during the reporting period and the amount of that change related to investments held at the end of the reporting period.

...

Statement of comprehensive income

Items of income, expense, gains or losses

...

20B To help users of financial statements understand the effect of contractual terms that could change the timing or amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that is specific to the debtor, an entity shall disclose:

- (a) a qualitative description of the nature of the contingent event;
- (b) quantitative information about the range of changes to contractual cash flows that could result from those contractual terms; and

- (c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

20C An entity shall disclose the information required by paragraph 20B separately for each class of financial assets measured at amortised cost or fair value through other comprehensive income and for each 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.

...

Effective date and transition

...

44J Amendments to the Classification and Measurement of Financial Instruments, issued in March 2023, added paragraphs 20B and 20C and amended paragraph 11A. An entity shall apply these amendments when it applies the amendments to IFRS 9. An entity need not provide the disclosures required by these amendments for any period presented beginning before the date of initial application of the amendments.

**Approval by the International Accounting Standards Board of
Exposure Draft *Amendments to the Classification and
Measurement of Financial Instruments* published in March 2023**

The Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* was approved for publication by 11 of the 12 members of the International Accounting Standards Board (IASB) as at February 2023. Ms Buchanan abstained in view of her recent appointment to the IASB.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Zach Gast	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	

Basis for Conclusions on Exposure Draft Amendments to the Classification and Measurement of Financial Instruments

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Amendments to the Classification and Measurement of Financial Instruments. 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.

Introduction

- BC1 The IASB carried out a post-implementation review (PIR) of the classification and measurement requirements in IFRS 9 *Financial Instruments* and related requirements in IFRS 7 *Financial Instruments: Disclosures*, in accordance with the IASB's due process, as described in the IFRS Foundation *Due Process Handbook*. The work completed by the IASB and the conclusions it reached are summarised in the *Project Report and Feedback Statement – Post-implementation Review of IFRS 9 Financial Instruments – Classification and Measurement*, published in December 2022.
- BC2 The PIR resulted in the identification of two matters that the IASB decided should be addressed as soon as possible:
- (a) electronic cash transfers as settlement of a financial asset or a financial liability – proposing amendments to the application guidance on recognition and derecognition (see paragraphs BC5–BC38); and
 - (b) the assessment of the contractual cash flow characteristics of financial assets with features linked to environmental, social and governance (ESG) concerns – proposing amendments to the application guidance on the classification of financial assets (see paragraphs BC39–BC72).
- BC3 The IASB also identified other matters that, although of a lower priority, also require standard-setting. The IASB decided that it would be most efficient for stakeholders if the IASB included the proposed amendments to IFRS 9 and IFRS 7 in a single exposure draft. The first of these matters involves clarifying the application of the contractual cash flow characteristics assessment to financial assets with non-recourse features and to contractually linked instruments. The proposed requirements for these instruments are part of the general requirements on contractual cash flow characteristics, and therefore need to be considered along with any necessary clarifications to them (see paragraphs BC73–BC93).
- BC4 This Exposure Draft also proposes amendments or additions to the disclosure requirements in IFRS 7 for:
- (a) investments in equity instruments designated at fair value through other comprehensive income (see paragraphs BC94–BC97); and
 - (b) financial instruments with contractual terms that could change the timing or amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event (see paragraphs BC98–BC104).

Derecognition of a financial liability settled through electronic transfer

Background

- BC5 In September 2021 the IFRS Interpretations Committee (Committee) received a request about the application of IFRS 9 in relation to the recognition of cash received by an entity via electronic transfer as settlement of a financial asset (a trade receivable).
- BC6 The Committee concluded that an entity, in applying paragraphs 3.2.3(a) and 3.1.1 of IFRS 9, is required:
- (a) to derecognise a trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and
 - (b) to recognise the cash (or other financial asset) received as settlement of that trade receivable on the same date.
- BC7 Respondents to the Committee's tentative agenda decision did not disagree with its technical analysis and conclusions. However, many respondents were concerned about the potential outcomes of finalising the agenda decision.
- BC8 At its June 2022 meeting, the Committee considered this feedback and confirmed the technical analysis and conclusions in its tentative agenda decision. However, the Committee decided to refer to the IASB respondents' concerns, which included:
- (a) a disruption to long-standing practices;
 - (b) the costs of applying the agenda decision; and
 - (c) possible adverse consequences in relation to other fact patterns, in particular, the derecognition of trade payables.
- BC9 A few PIR participants also commented on the Committee's discussion of this topic and reconfirmed the aforementioned concerns. Consequently, the IASB decided to consider this matter as part of its PIR.
- BC10 Except for a regular way purchase or sale of financial assets, IFRS 9 requires an entity to apply settlement date accounting when recognising or derecognising financial assets or financial liabilities. Those recognition and derecognition requirements—which result in an entity faithfully representing in its financial statements its contractual rights and obligations at the reporting date—provide useful information to users of financial statements. The IASB observed that the PIR did not provide evidence of fundamental questions about the clarity and suitability of the derecognition requirements in IFRS 9. The IASB further noted that potential for disruption to long-standing practices arising from an agenda decision published by the Committee is not, in itself, a reason to undertake standard-setting.

- BC11 However, despite the fact that the PIR had concluded that the recognition and derecognition requirements in IFRS 9 generally work well, the IASB acknowledged the diversity in practice that stakeholders identified, especially in the context of the settlement of financial liabilities. The IASB therefore decided:
- (a) to clarify that an entity is required to use settlement date accounting when recognising or derecognising financial assets and financial liabilities (unless paragraph B3.1.3 of IFRS 9 applies); and
 - (b) to develop new requirements to permit an entity to derecognise, before the settlement date, a financial liability that will be settled with cash using an electronic payment system.

Approaches considered

- BC12 The IASB considered two possible narrow-scope standard-setting approaches:
- (a) clarifying aspects of the derecognition requirements in IFRS 9 (see paragraphs BC13–BC21); or
 - (b) developing requirements to permit derecognition of a financial liability before the settlement date when specified criteria are met (see paragraphs BC22–BC24).

Clarification of aspects of the derecognition requirements

- BC13 The first approach, had it been followed, would have necessitated an amendment to IFRS 9 to clarify *when* the contractual rights to the cash flows from a financial asset expire (paragraph 3.2.3(a) of IFRS 9) or when a financial liability is extinguished (paragraph 3.3.1 of IFRS 9).
- BC14 Respondents to the Committee’s tentative agenda decision said that determining exactly when a liability is extinguished, or the rights to the cash flows from a financial asset expire, could be time-consuming, costly and involve extensive (legal) analysis of each payment platform and the related individual contractual terms. This is because the relevant regulations and requirements to determine the point of extinguishment vary between jurisdictions and could potentially lead to economically similar financial assets and financial liabilities being derecognised at different times.
- BC15 The IASB noted that the recognition and derecognition requirements in IFRS 9 generally result in symmetrical outcomes—in other words, if one entity has a financial asset, another entity will have a corresponding financial liability (or an equity instrument)—while the detailed assessments for derecognition differ (see paragraphs BC16–BC17).
- BC16 For example, paragraph B3.3.1 of IFRS 9 states that a financial liability is extinguished when either an entity is legally released from primary responsibility for the financial liability, or when the entity’s contractual obligation is discharged through payment (upon delivery of cash or another financial asset by the entity on the settlement date).

- BC17 In relation to financial assets, the IASB noted that paragraph 3.2.3(a) of IFRS 9 states that a financial asset is derecognised either when the contractual rights to the cash flows expire (upon delivery of cash or another financial asset to the entity on the settlement date) or the financial asset is transferred, and the transfer qualifies for derecognition by applying paragraphs 3.2.4–3.2.6 of IFRS 9.
- BC18 The IASB considered that, although the derecognition outcomes are symmetrical, the timing of recognition and derecognition for the same transaction may not be. This is because an entity does not base its accounting on what a counterparty has done but, instead, assesses its contractual rights or obligations to receive or pay cash on the basis of the information it has at the reporting date (for example, when applying settlement date accounting).
- BC19 To clarify when rights expire or liabilities are extinguished, the IASB would need to look holistically at the derecognition requirements in IFRS 9 for both financial assets and financial liabilities. The IASB concluded that such an approach would require a fundamental reconsideration of those requirements, and, as a consequence, also consideration of the recognition requirements for financial assets and financial liabilities.
- BC20 The IASB also noted that it would not be possible to limit such an approach to particular types of such assets or liabilities. The approach would, therefore, give rise to a significant risk of unintended consequences. Careful consideration of that risk would require analysis of all potential scenarios and transactions, and consequently a significant investment of time and resources, of the IASB and of its stakeholders.
- BC21 The IASB concluded that fundamentally reconsidering the recognition and derecognition requirements in IFRS 9 would be inconsistent with:
- (a) the feedback received during the PIR that the recognition and derecognition requirements generally work well; and
 - (b) its framework for assessing when to take action on matters identified during a PIR.

Therefore, the IASB decided not to follow such an approach.

Requirements to permit derecognition before the settlement date when specified criteria are met

- BC22 Although the request and the Committee’s tentative agenda decision focused on the application of the derecognition requirements to trade receivables, most of the concerns stakeholders raised related to trade payables. The IASB therefore decided to explore whether it could, through narrow-scope standard-setting:
- (a) clarify that an entity is required to apply settlement date accounting (unless paragraph B3.1.3 of IFRS 9 applies) when recognising and derecognising financial assets and financial liabilities; and
 - (b) permit the derecognition of a financial liability before the settlement date if specified criteria were met.

- BC23 The IASB acknowledged that such a narrow-scope amendment to IFRS 9 would not resolve all of the concerns that stakeholders had raised, nor would it reduce the costs of applying the derecognition requirements in IFRS 9 to all financial liabilities—because the criteria would be met only in specified circumstances. However, the IASB was of the view that such a narrow-scope amendment would:
- (a) provide a timely and effective response to many of the concerns raised by stakeholders;
 - (b) mitigate the risk of unintended consequences by retaining the current derecognition requirements without fundamental change;
 - (c) lead to consistency in applying the derecognition requirements by clarifying the use of settlement date accounting and ensure that the usefulness of the information provided to users of financial statements was not compromised;
 - (d) limit the circumstances in which financial liabilities could be derecognised before the settlement date through the use of specified criteria; and
 - (e) be operable if the scope of the amendment were sufficiently narrow.
- BC24 Consequently, the IASB decided to explore further the feasibility of such a narrow-scope amendment.

Proposed requirements for financial liabilities

Criteria for derecognising a financial liability before the settlement date

- BC25 The settlement of a financial asset or a financial liability is not a regular way purchase or sale of a financial asset, as defined in Appendix A to IFRS 9. However, the requirements for regular way transactions in paragraphs 3.1.2 and B3.1.3–B3.1.6 of IFRS 9 already provide an alternative to the general requirements to recognise or derecognise a financial asset before the settlement date if specified criteria were met. The IASB therefore considered those requirements as a useful starting point to develop criteria for the derecognition of financial liabilities before the settlement date.
- BC26 The IASB also considered the requirements in paragraph AG38F of IAS 32 *Financial Instruments: Presentation* for a gross settlement system that would meet the net settlement criterion in paragraph 42(b) of that Standard. As for a regular way purchase or sale in IFRS 9, for a gross settlement system to meet the criteria for net settlement, one of the key principles is that the risk of settlement not occurring must be insignificant.
- BC27 The IASB proposes in paragraph B3.3.8 of the draft amendments that an entity be permitted to deem a financial liability (or a part of it)—that will be settled with cash using an electronic payment system—to be discharged before the settlement date if, and only if, the entity has initiated the payment instruction and:

- (a) the entity has no ability to withdraw, stop or cancel the payment instruction (see paragraphs BC28–BC29);
- (b) the entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction (see paragraphs BC30–BC32); and
- (c) the settlement risk associated with the electronic payment system is insignificant (see paragraphs BC33–BC34).

No ability to withdraw, stop or cancel the payment instruction

BC28 The IASB considered that an entity typically initiates cash payments to settle its financial liabilities by issuing payment instructions to its bank(s) through a wide range of payment systems or platforms. Although in issuing the payment instruction an entity might be committed to settling a liability, the entity might still be able to withdraw, stop or cancel a payment instruction depending on the nature of the payment system—for example, when cash has not yet been transferred or delivered to a creditor. In other words, if an entity has the ability to withdraw, stop or cancel a payment instruction, the entity could still prevent the payment from completing and, in those circumstances, it could not be said that the entity has discharged the liability, as currently required by paragraph B3.3.1(a) of IFRS 9.

BC29 The IASB therefore proposes that, for an entity to deem a financial liability to be discharged before the settlement date, the entity must have no ability to withdraw, stop or cancel the relevant payment instruction.

No practical ability to access the cash used for settlement

BC30 The IASB is also proposing that, to derecognise a financial liability before the settlement date, an entity must have no practical ability to access the cash used for settlement.

BC31 In developing this criterion, the IASB considered situations in which an entity has no practical ability to access cash even though the cash might not have been transferred from the entity’s bank account. In such a situation, the entity might be reasonably certain that the cash will be delivered to the creditor in accordance with the standard processing time for the cash payment system used (delivery would usually be within a short time frame). For example, although the cash might still be part of the entity’s cash balance with the bank, the ‘available’ balance might be reduced by the amount of the payment instruction. At this time, the entity might no longer be able to access the cash or direct its use for a purpose other than settling the payment obligation.

BC32 In the IASB’s view, it would be inappropriate for an entity to deem a financial liability to be discharged if the entity could still access or direct the use of the cash to be used to settle the liability. If an entity has the practical ability to access the cash for a purpose other than settling the financial liability, it could neither be considered that the entity has delivered cash (as required for settlement date accounting by paragraph B3.1.6 of IFRS 9) nor that the entity

has discharged the liability by paying with cash (as required by paragraph B3.3.1(a) of IFRS 9).

Settlement risk associated with the electronic payment system is insignificant

BC33 'Settlement risk' generally refers to the risk that a transaction will not be settled (or completed) and therefore that the debtor will not deliver cash to the creditor on the settlement date. For the purposes of the requirements in paragraphs B3.1.6 and B3.3.1 of IFRS 9, when a financial liability has been discharged by paying cash to a creditor, the creditor is no longer exposed to any settlement risk associated with the transaction.

BC34 The IASB is of the view that for an entity to deem a financial liability to be discharged before the settlement date, the risk of settlement not occurring must be insignificant. In the draft amendments, the IASB proposes that settlement risk is insignificant when the characteristics of an electronic payment system are such that completion of the payment instruction follows a standard administrative process, and that the time between initiating a payment instruction and the cash being delivered is short. The longer the completion time for a specific payment system, the higher the risk that the payment may not be completed due to default of the debtor.

Scope of the proposed requirements

BC35 In developing its proposed requirements, the IASB considered their potential scope. In particular, the IASB considered whether the proposed requirements could be applied to a wider population of cash payments instead of just electronic payment systems, for example, all cash payments from demand deposits.

BC36 The IASB noted that, were the proposed requirements to be so widely applied, such an approach could give rise to a number of conceptual and practical challenges. First, the risk that cash could be seen as being treated differently from other financial assets for the purposes of the derecognition requirements in IFRS 9. This could lead to different accounting outcomes when an entity settles a transaction with cash rather than by delivering another financial asset, such as a security.

BC37 Second, were the proposed amendments to apply to all cash payments from demand deposits (for example, a current account), cash payments would be excluded from an entity's other sources of cash. With this in mind, the IASB noted that the practical challenges that led to the development of the proposed requirements did not arise from the nature of the account from which a payment is made, but rather from the nature of the payment method being used. The IASB also noted that any consideration of 'cash' or 'cash equivalents'—defined in IAS7 *Statement of Cash Flows*—is outside the scope of IFRS 9 and therefore not relevant to the proposed requirements.

- BC38 Consequently, the IASB decided to limit the scope of the proposed requirements to cash settlements using electronic payment systems that meet the specified criteria but without otherwise changing the application of the derecognition requirements in IFRS 9. The IASB also decided that an entity must apply the proposed requirements to all payments using the same payment system.

Classification of financial assets

Background

- BC39 When developing the classification requirements for financial assets in IFRS 9, the IASB decided that amortised cost provides useful information to users of financial statements about the amount, timing and uncertainty of a financial asset's future cash flows only if those cash flows are solely payments of principal and interest on the principal amount outstanding (see paragraph BC4.23 of the Basis for Conclusions on IFRS 9).
- BC40 Appendix B to IFRS 9 includes application guidance on assessing whether a financial asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding. PIR participants agreed that, in general, the application guidance works as intended by the IASB. However, participants noted challenges in applying the guidance to financial assets with ESG-linked or similar features.
- BC41 In the IASB's view, the contractual cash flow characteristics assessment in IFRS 9 is as relevant to financial assets with ESG-linked features as it is to other financial assets; and that the requirements in IFRS 9 (subject to clarifications) provide an appropriate basis to determine whether such financial assets meet the conditions to be measured at amortised cost or fair value through other comprehensive income.
- BC42 The IASB concluded that creating an exception from the requirements on contractual cash flow characteristics in IFRS 9 for financial assets with ESG-linked features would not be appropriate. In the IASB's view, this conclusion is consistent with the PIR feedback that indicated that there was no need for fundamental changes to the classification and measurement requirements in IFRS 9.
- BC43 The IASB agreed with PIR participants that amortised cost could provide useful information to users of financial statements about the amount, timing and uncertainty of future cash flows of some financial assets with ESG-linked features. For a financial asset whose ESG-linked features represent a cost of lending, rather than an exposure to factors unrelated to a basic lending arrangement, the most relevant information about such a financial asset is the contractual return to which the creditor is entitled and the cash flows that the creditor does not expect to receive. Amortised cost measurement captures both these elements through the effective interest method and the impairment requirements (see paragraph BC4.6 of the Basis for Conclusions on IFRS 9).

- BC44 The IASB therefore decided to respond to the PIR feedback by proposing clarifying amendments to IFRS 9. The amendments will further assist entities in determining whether financial assets—including those with ESG-linked or similar features—have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, as required by paragraphs 4.1.2 and 4.1.2A of IFRS 9. Specifically, the IASB is proposing amendments relating to:
- (a) the elements of interest that are consistent with a basic lending arrangement (see paragraphs BC46–BC52); and
 - (b) contractual terms that change the timing or amount of contractual cash flows (see paragraphs BC53–BC72).
- BC45 PIR participants also raised questions about assessing the contractual cash flow characteristics of other types of financial assets. In response to these questions, the IASB is proposing clarifying amendments relating to:
- (a) financial assets with non-recourse features (see paragraphs BC73–BC79); and
 - (b) contractually linked instruments (see paragraphs BC80–BC93).

Elements of interest in a basic lending arrangement

- BC46 Paragraph B4.1.7A of IFRS 9 states that contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. That paragraph also outlines some typical elements of interest that are consistent with a basic lending arrangement, namely, consideration for the time value of money; credit risk; other basic lending risks, such as liquidity risk; costs associated with holding the financial asset; and a profit margin.
- BC47 In analysing the PIR feedback, including uncertainty about the term ‘basic lending arrangement’, the IASB reconfirmed that:
- (a) the elements of interest specified in paragraph B4.1.7A of IFRS 9 do not constitute an exhaustive list of the elements that are consistent with a basic lending arrangement;
 - (b) the specified elements do not provide a ‘safe haven’—even if something is labelled ‘credit risk’ or ‘profit margin’, further analysis may be required;
 - (c) an entity is not necessarily required to carry out a quantitative analysis of the different elements of interest to determine whether the contractual cash flows are consistent with a basic lending arrangement; and
 - (d) contractual terms are not necessarily consistent with a basic lending arrangement simply because they are common in the market in which the entity operates.

AMENDMENTS TO THE CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

- BC48 The IASB decided to respond to the PIR feedback by proposing amendments to clarify how to assess interest for the purposes of applying paragraph B4.1.7A. The IASB confirmed the principle explained in paragraph BC4.182(b) of the Basis for Conclusions on IFRS 9—that the assessment of interest focuses on *what* the entity is being compensated for rather than *how much* the entity receives for a particular element. The IASB decided to incorporate this principle into the application guidance in paragraph B4.1.8A of the draft amendments.
- BC49 The IASB also decided to clarify when contractual cash flows are consistent with a basic lending arrangement and when they are not, and to provide examples to illustrate how an entity should apply the clarified requirements.
- BC50 The IASB concluded that it would not be possible to prescribe an exhaustive list of the elements of interest that would be consistent with a basic lending arrangement. Paragraph B4.1.15 of IFRS 9 already states that, in some cases, cash flows that are contractually labelled as ‘interest’ may not be consistent with a basic lending arrangement. Similarly, although a contractual term might not explicitly refer to ‘interest’, it may nonetheless result in consideration that forms part of the lender’s compensation for the time value of money, credit risk and other basic lending risks and costs. The IASB therefore concluded that an entity may need to apply judgement, in particular when assessing contractual terms relating to new developments in lending markets.
- BC51 The IASB also noted that the term ‘basic lending arrangement’ is used in IFRS 9 to refer to the nature of a lending arrangement, rather than to an arrangement that is common or widespread in a particular market or jurisdiction. Although, as a general proposition, the market is relevant—for example, in a particular jurisdiction it might be common to reference interest rates to a particular benchmark rate—just because something is common practice in a particular jurisdiction, it does not necessarily result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. For example, paragraph B4.1.7A of IFRS 9 states that exposure to commodity or equity prices is inconsistent with a basic lending arrangement. This would be the case regardless of whether loans in a particular market commonly have contractual terms that are linked to such factors.
- BC52 In a basic lending arrangement, a lender lends a principal amount to a borrower for a specified term (which may be contractually shortened or extended) in exchange for the contractual right to receive payments of principal and interest representing compensation for risks and costs associated with holding the financial asset. There is, therefore, a relationship between the perceived risk the lender is taking on and the compensation it receives for that risk. The IASB therefore decided to clarify that, for contractual cash flows to be consistent with a basic lending arrangement, a change in contractual cash flows has to be directionally consistent with, as well as proportionate to, a change in lending risks or costs. For example, an increase in the credit risk of a borrower is reflected in an increase, and not a decrease, in the interest rate of the financial asset.

Contractual terms that change the timing or amount of contractual cash flows

- BC53 IFRS 9 acknowledges that some financial assets contain contractual terms that could change the timing or amount of contractual cash flows during the life of those assets. For such a financial asset, paragraph B4.1.10 of IFRS 9 requires an entity to determine whether the cash flows that could arise over the life of the financial asset are solely payments of principal and interest on the principal amount outstanding.
- BC54 PIR participants asked the IASB for more guidance on applying the principles in B4.1.10 to contingent events that are not currently covered by the examples in that paragraph. Feedback suggested that entities might infer from one of the examples—namely, a change in contractual cash flows triggered by a change in the debtor’s credit risk—that, for cash flows to be solely payments of principal and interest on the principal amount outstanding, the nature of any contingent event must be associated with one of the elements of interest specified in paragraph B4.1.7A of IFRS 9.
- BC55 The IASB noted that IFRS 9 requires all variability in contractual cash flows over the life of an instrument to be assessed. In other words, variability cannot be assumed to be consistent with a basic lending arrangement simply because it arises from one of the elements of interest mentioned in paragraph B4.1.7A of IFRS 9. Furthermore, the variability in cash flows need not relate to one of the elements of interest explicitly mentioned in paragraph B4.1.7A. For example, IFRS 9 mentions liquidity risk as an example of ‘other basic lending risks’ because it is a common element of interest. However, IFRS 9 does not state that it is the only other basic lending risk or cost. In the IASB’s view, the key principle is whether the changes in the timing or amount of contractual cash flows are consistent with a basic lending arrangement.
- BC56 The IASB decided that it would be helpful to identify and clarify in paragraph B4.1.10A of the draft amendments the following interrelated principles for assessing the contractual cash flows over the life of a financial asset:
- (a) all possible changes in contractual cash flows are considered irrespective of the probability of a contingent event occurring (except for non-genuine contractual terms, as described in paragraph B4.1.18 of IFRS 9) (see paragraphs BC58–BC60);
 - (b) the timing and amount of any variability in contractual cash flows are specified in the contract (see paragraphs BC61–BC62);
 - (c) the occurrence of the contingent event is specific to the debtor (see paragraphs BC63–BC69); and
 - (d) the contractual cash flows arising from the contingent event represent neither an investment in the debtor nor an exposure to the performance of specified assets (see paragraphs BC70–BC72).

BC57 The IASB also decided to add examples to paragraphs B4.1.13 and B4.1.14 of IFRS 9 to illustrate these principles.

Consideration of possible changes in contractual cash flows, irrespective of probability

BC58 When developing IFRS 9, the IASB considered feedback suggesting that a contingent feature should not affect the classification of a financial asset if the likelihood of the contingent event occurring is remote. The IASB rejected this approach, concluding that even if the probability of a contingent event occurring is low, an entity must consider all contractual cash flows that could arise over the life of the instrument unless the contingent feature is not genuine (see paragraphs BC4.186 and BC4.189 of the Basis for Conclusions on IFRS 9).

BC59 This view was further reflected in the requirements in IFRS 9 that prohibit reclassifications based on a financial asset's contractual cash flows. An entity is required to classify a financial asset at initial recognition based on the contractual terms over the life of the instrument (see paragraph BC4.117 of the Basis for Conclusions on IFRS 9).

BC60 The IASB therefore noted that the contractual cash flow assessment is based on all contractual cash flows that could arise over the life of the financial instrument; it is not a probability-based assessment. In other words, an entity must consider the effect on contractual cash flows were any of the contingent events specified in the contract to occur, however unlikely.

Changes to cash flows specified in the contractual terms

BC61 The underlying principle for the classification of financial assets is that amortised cost provides useful information to users of financial statements about the amount, timing and uncertainty of future cash flows of financial assets if the contractual cash flows are either fixed both in timing and amount, or variable yet determinable.

BC62 The IASB therefore decided that, for changes in the amount or timing of contractual cash flows arising from a contingent event to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, those changes in cash flows must be contractually specified and, therefore, determinable. In other words, in addition to knowing what would give rise to a change in cash flows, the entity must also know what the adjustment to the cash flows would be in order for it to conclude that contractual cash flows—that could arise over the life of the instrument—are solely payments of principal and interest on the principal amount outstanding.

The occurrence of the contingent event is specific to the debtor

BC63 When considering the PIR feedback, the IASB noted that IFRS 9 already requires that consideration received on a financial asset measured at amortised cost or fair value through other comprehensive income must compensate the creditor only for basic lending risks and costs (that is, the risks and costs associated with extending credit to a debtor for a specified

period of time). The IASB also considered that changes to the timing or amount of contractual cash flows could arise from contractual terms associated with the time value of money (see paragraphs B4.1.9A–B4.1.9E of IFRS 9), prepayment features (see paragraphs B4.1.11–B4.1.12A of IFRS 9) or the occurrence (or non-occurrence) of a contractually specified contingent event, for example, changes in the contractual interest rate resulting from an entity achieving a contractually specified ESG target.

- BC64 The occurrence of a contingent event can be specific to the debtor even though the nature of the contingent event is not unique to the debtor. For example, a creditor could include in all of its contracts a term whereby the debtor's interest rate is reduced if the debtor meets certain targets to reduce its own greenhouse gas emissions.
- BC65 Although, in that example, all debtors are subject to the same contingent event (achieving the same contractually defined reduction in greenhouse gas emissions), the occurrence (or non-occurrence) of the event is specific to each debtor. In contrast, some contracts might include contingent events that are not specific to a debtor or depend on factors that are unrelated to the debtor. For example, a change in the timing or the amount of a financial asset's contractual cash flows that were based on a reduction in industry-wide greenhouse gas emissions would not be consistent with a basic lending arrangement.
- BC66 Some PIR participants suggested that the IASB should clarify that a change in the timing or amount of contractual cash flows is consistent with a basic lending arrangement if it arises from a 'non-financial variable that is specific to a party to the contract', as this concept is used in the definition of a derivative in IFRS 9.
- BC67 The IASB acknowledged that requiring a contingent event to be 'specific to the debtor' has similarities to the definition of a derivative in IFRS 9, which refers to a 'non-financial variable' that 'is not specific to a party to the contract'. However, in a basic lending arrangement, the creditor is compensated only for basic lending risks and the cost associated with extending credit to the debtor. Therefore, a change in contractual cash flows due to a contingent event that is specific to the creditor or another party would be inconsistent with a basic lending arrangement.
- BC68 The IASB also decided that it would be inappropriate to distinguish between financial and non-financial variables when making this kind of assessment. Variability in contractual cash flows arising from variables that are inconsistent with a basic lending arrangement do not result in cash flows that are solely payments of principal and interest on the principal amount outstanding, irrespective of whether the variables are financial or non-financial.
- BC69 The IASB concluded that for the contractual cash flows to be consistent with a basic lending arrangement, the occurrence of a contingent event (other than those associated with the time value of money or prepayment features) must be specific to the debtor. The IASB further noted that not all contingent events that are specific to a debtor would be consistent with a basic lending

arrangement. For example, contractual cash flows that change based on the level of a debtor's revenue or profits in a specific period would not generally be considered to be consistent with a basic lending arrangement (see paragraphs BC70–BC72).

Cash flows represent neither an investment in the debtor nor an exposure to the performance of specified assets

- BC70 The IASB decided to clarify that changes in the timing or amount of contractual cash flows that represent an investment in the debtor (for example, contractual terms that entitle the creditor to a share of the debtor's revenue or profits), or an exposure to the performance of specified assets, are inconsistent with a basic lending arrangement, even if such terms are specific to the debtor.
- BC71 This clarification is consistent with the principles in paragraph B4.1.15 and B4.1.16 of IFRS 9 that, even if contractual cash flows are described as payments of principal and interest, such cash flows would not represent solely payments of principal and interest on the principal outstanding if the financial asset represents an investment in particular assets.
- BC72 The nature of a contingent event could be an indicator that a financial asset's contractual cash flows represent an investment in the debtor or exposure to the performance of specified assets (and is therefore inconsistent with a basic lending arrangement), although it is not in itself a determining factor.

Financial assets with non-recourse features

- BC73 Paragraph B4.1.6 of IFRS 9 describes financial assets for which a creditor's claim is limited to specified assets of the debtor, or to cash flows from specified assets as financial assets with 'non-recourse' features. When developing IFRS 9, the IASB concluded that the existence of non-recourse features does not in itself necessarily preclude a financial asset from having cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, paragraph B4.1.17 of IFRS 9 requires an entity to assess ('look through to') the underlying assets to determine whether the contractual cash flows of the financial asset being classified are payments of principal and interest on the principal amount outstanding.
- BC74 PIR participants asked the IASB to clarify the meaning of non-recourse features; in particular, the difference between financial assets with non-recourse features and financial assets for which a creditor's claim is secured by the assets pledged as collateral. Participants also observed that, for the purposes of assessing both financial assets with non-recourse features (paragraph B4.1.17 of IFRS 9) and contractually linked instruments (paragraph B4.1.22 of IFRS 9), an entity is required to 'look through to' the particular underlying assets or underlying pool of financial instruments. They therefore asked for clarity as to the purpose of the 'look through' assessment in these situations.

- BC75 Non-recourse features in IFRS 9 referred to the absence of liability on the part of a debtor beyond any underlying assets pledged as collateral. In contrast, in the case of a collateralised loan, a creditor's claim is secured by the collateral only in the case of default. Throughout the life of such a loan, the creditor has recourse to the debtor for repayment of the loan. The IASB therefore concluded that financial assets with non-recourse features are different from collateralised financial assets, because the creditor's claim is limited to the specified underlying assets throughout the life of the financial assets as well as in the case of default.
- BC76 The IASB considered situations in which a financial asset could have non-recourse features if it is structured as a loan to a special purpose entity with specified assets and the creditor has no recourse to the entity that has transferred the assets to the special purpose entity. For example, suppose that a special purpose entity has only one source of income, being cash flows generated by the transferred assets, from which to repay the loan. In addition, the special purpose entity may only have nominal equity—or very little loss-absorbing capacity beyond the transferred assets. In such a situation, the creditor would be exposed to the performance risk of the underlying assets—as opposed to basic lending risks, such as credit risk; consequently the loan might not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- BC77 The IASB also considered a situation in which a creditor has the contractual right to require a debtor to pledge additional assets if specified assets do not generate sufficient cash flows or when their value decreases below a specified threshold. In such situations, the financial asset does not have non-recourse features because the creditor has recourse to the debtor to secure its contractual right to the cash flows from the financial asset.
- BC78 To assist entities in determining whether a financial asset has non-recourse features, the IASB decided to clarify that, for a financial asset to have such features, the creditor's contractual right to receive cash flows must be limited to the cash flows generated by specified assets, both over the life of the financial asset and in the case of default.
- BC79 The IASB also decided to include in paragraph B4.1.17A of the draft amendments guidance on how to make the assessment required in paragraph B4.1.17 of IFRS 9 for financial assets with non-recourse features.

Investments in contractually linked instruments

- BC80 When developing IFRS 9, the IASB considered transactions in which an issuer prioritises payments to the holders of financial assets using multiple contractually linked instruments (tranches) that create concentrations of credit risk. In such situations, the holders of some tranches receive a premium in return for providing credit protection to other tranches.
- BC81 In assessing the contractual cash flow characteristics of contractually linked instruments, the IASB noted that classification based solely on the contractual features of the instruments would fail to capture their economic characteristics when concentrations of credit risk arise through contractual

linkage (see paragraphs BC4.26–BC4.36 of the Basis for Conclusions on IFRS 9). Therefore, for these types of financial instruments, paragraph B4.1.22 of IFRS 9 requires an entity to ‘look through’ until the entity can identify the underlying pool of financial instruments that are creating the cash flows.

- BC82 PIR participants asked the IASB to clarify the scope of the requirements in paragraphs B4.1.20–B4.1.26 of IFRS 9, noting that there are diverse interpretations of some of the terms used in the Standard to describe the types of instruments to which those requirements are applied. PIR participants said that, for some types of financial assets, it is unclear whether an entity should apply the requirements for contractually linked instruments or the requirements for financial assets with non-recourse features. In their view, applying the requirements for contractually linked instruments instead of the requirements for financial assets with non-recourse features (or vice versa) can result in different accounting outcomes.
- BC83 Participants also asked whether financial instruments that are not entirely within the scope of IFRS 9 could meet the criteria for financial instruments in the underlying pool, as set out in paragraph B4.1.23 of IFRS 9.

Scope

- BC84 The IASB proposes to clarify the characteristics of contractually linked instruments that distinguish them from other transactions by amending paragraph B4.1.20 of IFRS 9 and adding paragraph B4.1.20A to the draft amendments.
- BC85 The IASB noted that the phrase ‘contractually linked’ refers to a transaction for which the relationship between, and the rights and obligations associated with, the different tranches—including the order in which cash flows are allocated—are specified in the contractual terms of the instruments. Although it is common for transactions involving such instruments to have three or more tranches, the IASB did not intend that paragraphs B4.1.20–B4.1.26 of IFRS 9 should be understood as applying only to transactions with three or more tranches.
- BC86 The IASB considered whether the requirements for contractually linked instruments apply to bilateral secured lending arrangements in which a creditor agrees to lend money to a customer subject to specified assets being transferred into a special purpose entity as security for the loan. In such an arrangement, the customer, as the sponsoring entity of the special purpose entity, would typically provide a portion of the funding the special purpose entity uses to acquire the specified assets. This could be in the form of either an equity investment or a debt instrument that is subordinated to the debt instrument held by the creditor.
- BC87 The IASB noted that the type of secured lending transaction described in paragraph BC86 is different in nature from a transaction in which multiple contractually linked instruments are issued to the holders of the tranches, as described in paragraph B4.1.20 of IFRS 9. In a secured lending transaction, the contract is generally negotiated between the creditor and the customer in the form of a sponsoring entity; therefore, such a transaction does not contain

multiple contractually linked instruments. In line with this reasoning, the IASB decided to clarify in paragraph B4.1.20A of the draft amendments that an entity is required to assess the contractual cash flows of the debt instrument held by the creditor in such transactions in accordance with the requirements in paragraphs B4.1.7–B4.1.19 of IFRS 9.

- BC88 Paragraph BC4.26 of the Basis for Conclusions on IFRS 9 refers to a ‘waterfall’ structure that prioritises payments to the holders of the different tranches. The IASB decided that it would be useful to include this wording from BC4.26 of the Basis for Conclusions on IFRS 9 in the description of contractually linked instruments in paragraph B4.1.20 of the draft amendments to explain how concentrations of credit risk are created.
- BC89 The IASB further decided to clarify that, in a transaction that uses multiple contractually linked instruments, the holders of the different tranches have recourse only to the cash flows from the underlying pool of financial instruments. Such transactions therefore have non-recourse features, as described in paragraph B4.1.16A of the draft amendments.
- BC90 However, in the IASB’s view, not all financial assets with non-recourse features are contractually linked instruments. An important factor that distinguishes contractually linked instruments from financial assets with non-recourse features is the disproportionate allocation of losses between the holders of the tranches. For example, if the holders of multiple debt instruments have recourse only to the issuer’s underlying assets, the instruments have non-recourse features and the holders share proportionately in the losses of those underlying assets. Thus, there are no concentrations of credit risk, as specified in paragraph B4.1.20 of IFRS 9 for multiple contractually linked instruments. The IASB therefore decided to clarify the description of contractually linked instruments to include in it the disproportionate allocation of losses between the holders of the different tranches.

Underlying pool of financial instruments

- BC91 Paragraph B4.1.21(b) of IFRS 9 states that a tranche has cash flow characteristics that are solely payments of principal and interest on the principal amount outstanding only if the underlying pool of financial instruments has the cash flow characteristics set out in paragraphs B4.1.23 and B4.1.24 of IFRS 9. PIR participants asked whether financial instruments that are not entirely within the scope of IFRS 9, such as lease receivables, could meet the criteria for the underlying pool of instruments in paragraph B4.1.23 of IFRS 9.
- BC92 The IASB noted that it was not its intention to limit the scope of eligible financial instruments in the underlying pool to those financial instruments that are entirely in the scope of IFRS 9. For example, lease receivables are not in the scope of IFRS 9 for classification purposes but could have cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding.

- BC93 Accordingly, the IASB proposes to clarify that financial instruments that are not within the scope of the classification requirements of IFRS 9, such as lease receivables, can be included in the underlying pool of financial instruments for the purpose of paragraph B4.1.23 of IFRS 9.

Disclosures

Investments in equity instruments designated at fair value through other comprehensive income

- BC94 As part of the PIR, the IASB discussed the feedback and evidence (including academic evidence) that it had received on investments in equity instruments for which an entity has elected to present subsequent changes in fair value in other comprehensive income. The IASB concluded that the requirements in IFRS 9 for such investments were generally working as intended and decided not to make any changes to the Standard in relation to them.
- BC95 However, some PIR participants were of the view that the requirements in IFRS 9 do not faithfully represent the financial performance of equity investments when, after an investment is disposed of, fair value changes accumulated in other comprehensive income are not reclassified to profit or loss when they are realised.
- BC96 The IASB noted that neither IFRS 9 nor IFRS 7 *Financial Instruments: Disclosures* distinguishes between 'realised' and 'unrealised' gains or losses, and that it had received no evidence as part of the PIR to support the contention that reclassification of amounts recognised and accumulated in other comprehensive income to profit or loss ('recycling') would necessarily result in users of financial statements receiving more or better information about realised gains than they do from existing requirements.
- BC97 Having considered the feedback, the IASB is nonetheless proposing to expand the disclosure requirements in paragraph 11A of IFRS 7 to require the disclosure of changes in the fair value of investments in equity instruments during the reporting period. The IASB is also proposing to require an entity to disaggregate changes in fair value during the period between investments derecognised during the reporting period and the amount related to investments held at the end of the reporting period. In the IASB's view, this information, together with the presentation and disclosure of amounts recognised in other comprehensive income, as required by paragraph 20(a)(vii) of IFRS 7 (and paragraph 82A(a)(i) of IAS 1 *Presentation of Financial Statements*), would provide users of financial statements with useful and more comprehensive information about the performance of these equity instruments.

Contractual terms that could affect the timing or amount of contractual cash flows

- BC98 To understand the nature and extent of risks arising from an entity's financial instruments, IFRS 7 requires disclosures that enable users of financial statements to understand the amount, timing and uncertainty of future cash flows (see, for example, paragraphs 21A and 35A of IFRS 7).
- BC99 In response to the PIR, users of financial statements said that understanding the effect of contractual terms that could change the timing or amount of contractual cash flows is important to their analysis and assessment of an entity's future cash flows. In their view, understanding the nature of such contractual terms—for example, financial instruments with ESG-linked and similar features—would provide useful information to users of financial statements.
- BC100 Stakeholders also said that it would be important for users of financial statements to understand the potential magnitude of changes in future contractual cash flows.
- BC101 Paragraph 20(b) of IFRS 7 requires disclosure of total interest revenue for financial assets measured at amortised cost or fair value through other comprehensive income and total interest expense for financial liabilities not measured at fair value through profit or loss. However, IFRS 7 does not specifically require an entity to disclose the effect of contractual terms that could change the timing or amount of the contractual cash flows of these financial instruments.
- BC102 The IASB therefore decided to propose requiring an entity to provide a description of the nature of contingent events specific to the debtor but not to limit such a requirement to only financial instruments with ESG-linked features.
- BC103 In balancing the benefits for users of financial statements against the costs for preparers, the IASB is also proposing that an entity should be required to disclose quantitative information about the range of possible changes in contractual cash flows (for example, the range of adjustments to the contractual interest rates that could arise from contingent events linked to ESG targets). The IASB decided not to propose that an entity be required to provide a sensitivity analysis of possible changes in contractual cash flows or to require a quantification of the likely effect these contingent events could have on an entity's financial statements. Unlike market prices (which are generally observable), contractual terms that could change the timing or amount of contractual cash flows of financial assets or financial liabilities depend on contingent events specific to the debtor. It would therefore be onerous for an entity to provide a sensitivity analysis of the effects of contingent events on its financial statements.
- BC104 However, to assist users of financial statements to understand the extent of an entity's exposure to such contingent events, the IASB is proposing that an entity be required to disclose the gross carrying amount of its financial assets and the amortised cost of its financial liabilities that are subject to contractual

terms of that kind. The IASB is of the view that this information would be useful in understanding the prevalence of financial instruments with contractual terms that could change the timing or amount of contractual cash flows in relation to the entity's total financial assets and financial liabilities within each class. This would therefore enable a better understanding of the uncertainty of an entity's future cash flows.

Transition

- BC105 The IASB is proposing transition requirements for the proposed amendments to IFRS 9 that are similar to those that applied on initial application of IFRS 9.
- BC106 The proposal in paragraph 7.2.48 of the draft amendments not to require the restatement of comparatives is consistent with the IFRS 9 transition requirements on initial application of IFRS 9, as set out in paragraph 7.2.15 of IFRS 9.
- BC107 However, the IASB decided to propose that, to the extent that the initial application of the proposed amendments result in a change in the classification of financial assets, an entity be required to disclose information about the measurement of those financial assets immediately before and after the amendments are applied. This is to enable users of financial statements to understand the change in the classification of financial assets and its effect, therefore, on an entity's financial statements.

**[Draft] Amendments to Guidance on implementing IFRS 7
*Financial Instruments: Disclosures***

[Draft] Heading before paragraph IG11A and paragraphs IG11A and IG11B providing guidance on meeting some of the disclosure requirements in paragraphs 11A and 11B of IFRS 7 *Financial Instruments: Disclosures* have been added. For ease of reading, this new text is not underlined.

...

Investments in equity instruments designated at fair value through other comprehensive income (paragraphs 11A and 11B)

IG11A The guidance below accompanies but is not part of IFRS 7 *Financial Instruments: Disclosures*. The guidance does not purport to demonstrate all of the possible ways of applying the disclosure requirements; but it does illustrate one possible way in which an entity could provide some of the disclosures required by paragraphs 11A and 11B of IFRS 7. An entity should apply its judgement in determining what disclosures would provide the most useful information, including the appropriate level of aggregation or disaggregation.

Background

Having met the requirements in paragraph 5.7.5 of IFRS 9 *Financial Instruments*, Entity A has elected to present subsequent changes in the fair value of its investments in equity instruments in other comprehensive income. In accordance with its accounting policies, Entity A transfers accumulated gains or losses from other comprehensive income to retained earnings only when an investment is derecognised. Entity A has a reporting year end of 31 December.

As at 1 January 20X1, Entity A's equity investments had an aggregate carrying amount of CU800,000, and the cumulative changes in fair value of these investments recognised in accumulated other comprehensive income as at that date were CU200,000. There were no disposals from this portfolio before 1 January 20X1.

On 31 July 20X1, Entity A acquired a non-controlling interest in Entity Y, a non-listed entity for CU155,000.

On 30 June 20X1, Entity A received CU1,000 of dividend income from Entity X. On 30 September 20X1, Entity A disposed of its investment in Entity X for CU200,000, resulting in a cumulative gain of CU50,000.

The remaining investments of Entity A had an aggregate fair value of CU820,000, as at 31 December 20X1. Entity A received total dividend income of CU5,000 from these remaining investments in 20X1.

The total change in fair value of Entity A's equity investments during the period was CU65,000, including CU20,000 relating to its investment in Entity X.

IG11B Entity A provides the following information in the notes to its financial statements for the year ending 31 December 20X1 (for simplicity, comparative information is not shown):

Information provided in the notes to Entity A's financial statements

The following table shows the Company's equity investments in non-listed entities. The Company holds these investments for strategic purposes on a medium- to long-term basis; the Company has neither a controlling interest in these entities (it holds less than a 5% equity investment in each entity) nor are the investments held for trading. Therefore, the Company has elected to present the subsequent changes in fair value of these investments in other comprehensive income. Accumulated gains or losses are transferred to retained earnings only when an investment is disposed of.

On 31 July 20X1, the Company acquired a non-controlling interest in Entity Y (less than a 5% equity investment), a non-listed entity; and on 30 September 20X1, the Company disposed of its investment in Entity X.

Equity instruments designated at fair value through other comprehensive income

	Carrying amount	Other comprehensive income
	(CU000) ^(a)	(CU000) ^(b)
1 January 20X1	800	200
Investments acquired	155	–
Fair value changes:		
Investments held as at year end	45	45
Investments disposed of	20	20
Investments disposed of	(200)	–
Transfers within equity following disposal	–	(50)
31 December 20X1	820	215

The Company transferred a cumulative gain of CU50,000, relating to the disposal of its investment in Entity X, from other comprehensive income to retained earnings during the year.

The Company received CU6,000 dividend income from its equity investments during the year, including CU1,000 that was received from Entity X.

(a) Entity A cross-referred from this column to the notes to its statement of financial position where the information required by paragraph 93 of IFRS 13 *Fair Value Measurement* is provided.

(b) Entity A cross-referred from this column to the statement of changes in other comprehensive income and the statement of changes in equity.



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