

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Virtual Meeting

Meeting Date: September 13–17 and 21, 2021

Agenda Item 4

For:

Approval

Discussion

Information

REVENUE AND TRANSFER EXPENSES

Project summary	<p>The aim of the Revenue project is to develop one or more standards that provide recognition and measurement requirements for revenue transactions.</p> <p>The aim of the Transfer Expenses project is to develop a standard that provides recognition and measurement requirements applicable to providers of transfer expense transactions, except for social benefits.</p>	
Drafting Group	<p>Given the current stage of both projects, Staff and the IPSASB Chair believe the IPSASB would benefit from a formal Drafting Group. See Agenda Item 4.2.5.</p>	
Meeting objectives Project management	Topic	Agenda Item
	Revenue and Transfer Expenses: Project Roadmap	4.1.1
	Instructions up to Previous Meeting	4.1.2
	Decisions up to Previous Meeting	4.1.3
Decisions required at this meeting	Recognition and Derecognition of a Liability (Deferred Revenue) in Binding Arrangements (Revenue)	4.2.1
	Existence of an Asset in Binding Arrangements (Transfer Expenses)	4.2.2
	Clarifying the Scope of the Transfer Expenses Standard (Transfer Expenses)	4.2.3
	Distinguishing Transfer Expenses with and without Performance Obligations (Transfer Expenses)	4.2.4
	Considering the Purpose and Benefits of the Drafting Group	4.2.5
	Draft IPSAS based on the Exposure Drafts (EDs)	4.2.6
Other supporting items	Supporting Document – Updated Project Plans	4.3.1

**REVENUE AND TRANSFER EXPENSES:
 PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Revenue with Performance Obligations	
March 2015	1. Approve Project Brief
June 2016	1. Discussion of the performance obligation approach with the Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018 to December 2018	1. Review Responses to the Consultation Paper
March 2019	1. Preliminarily approve the core text and authoritative guidance of the Exposure Draft
June 2019	1. Preliminarily approve updates to the core text and authoritative guidance of the Exposure Draft
December 2019	1. Approve Exposure Draft
March 2020 to September 2020	1. Document Out for Comment
December 2020 to March 2021	1. Review Responses 2. Discuss Issues
June 2021-September 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
March 2021	1. Discuss Issues 2. Develop IPSAS
June 2021	1. Approve IPSAS
Revenue without Performance Obligations	
March 2015	1. Approve Project Brief
June 2016	1. Discussion of IPSAS 23 Implementation Issues with Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018 to December 2018	1. Review Responses to Consultation Paper
March 2019 to June 2019	1. Develop Underlying Principles of Core Text and Authoritative Guidance
September 2019	1. Review first draft of ED, and discuss issues
December 2019	1. Approve Exposure Draft

March 2020 to September 2020	1. Document Out for Comment
December 2020 to March 2021	1. Review Responses 2. Discuss Issues
June 2021-September 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
March 2021	1. Discuss Issues 2. Develop IPSAS
June 2021	1. Approve IPSAS
Transfer Expenses	
March 2018	1. Review of responses – PSPOA 2. Review of responses – subsequent measurement of non-contractual payables
June 2018	1. Discussion of use of PSPOA for non-exchange expenses
September 2018	1. Discussion of use of PSPOA for non-exchange expenses
March 2019	1. Initial discussion of objective and scope 2. Initial discussion of definitions 3. Discussion of PSPOA 4. Initial discussion of presentation 5. Initial discussion of effective date and transition requirements 6. Initial review of draft ED
June 2019	1. Discussion of scope and definitions 2. Discussion of subsidies and premiums 3. Discussion of additional material to be included in the ED 4. Discussion of examples to be included in the ED
September 2019	1. Disclosures – discussion of issues 2. Review of initial draft of ED
December 2019	1. Review of draft ED final amendments 2. Review of examples – exception basis only 3. Approval of ED
March 2020 to September 2020	1. Document Out for Comment
December 2020 to April 2021	1. Review Responses 2. Discuss Issues
June 2021-September 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2021	1. Review Responses 2. Discuss Issues

Agenda Item 4.1.1

	3. Develop IPSAS
March 2021	1. Discuss Issues 2. Develop IPSAS
June 2021	1. Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Revenue		
June 2021	1. Assess and propose guidance on how the uncertainty of enforcement impacts the measurement of revenue or transfer expenses.	1. In progress
June 2021	2. Provide non-authoritative guidance to clarify that an entity should consider both explicit and implicit consequences in its assessment of the mechanisms of enforceability in a binding arrangement.	2. In progress
June 2021	3. Propose revised and new draft guidance related to the change in the definition of a liability in the Conceptual Framework and additional guidance on 'transfer of resources'.	3. See Conceptual Framework Agenda Item 3.2.7
June 2021	4. Consider the implications of the adoption of the term 'transfer' (as proposed in the change to 'transfer of resources' in the revised definition of a liability) at the standards-level.	4. See Conceptual Framework Agenda Item 3.2.7
June 2021	5. Incorporate the additional clarity and guidance on the definition of a liability into the Revenue project discussion on the existence of a liability in September 2021.	5. See Agenda Item 4.2.1
April 2021	1. Consider whether the term "present obligation" is appropriate when the binding arrangement is equally unfulfilled, as there would not yet be a binding obligation where there is little or no realistic alternative to avoid outflow of resources.	1. In progress
March 2021	1. Recommend amended title(s) for the proposed revenue standard(s) when all key decisions have been made in the revenue project.	1. In progress
March 2021	2. Develop the two standalone [draft] revenue IPSAS based on Option 1, subject to a final review after development on whether to maintain the split based on existence of a performance	2. In progress – see Agenda Item 4.2.6

	obligation, or to combine them based on the degree of duplication.	
March 2021	3. Draft guidance to better articulate that performance obligations also entail a greater specificity, and provides more objective and specific identification, recognition, and measurement of revenue.	3. In progress
March 2021	4. Draft additional Basis for Conclusions paragraphs to address concerns from specific constituents to explain why the IPSASB decided to move away from using exchange and non-exchange as defined terms to classify revenue and to explain that it remains an appropriate concept used to describe the economic substance of such transactions in the public sector.	4. In progress
March 2021	5. Draft guidance to clarify how an entity should account for transactions with components within the scope of the two standards, where it is unclear to appropriately allocate transaction price to components under different standards.	5. In progress
March 2021	6. Refine existing guidance on what gives rise to a liability (deferred revenue).	6. See Agenda Item 4.2.1
March 2021	7. Present detailed analysis on recognition of revenue as a liability is satisfied, including what constitutes an outflow.	7. Relevant analysis introduced in June 2021 Agenda Item 6.2.4 , continued in Agenda Item 4.2.1
March 2021	8. Clarify the guidance for situations where the satisfaction of a present or performance obligation occurs prior to the receipt of cash and incorporate this guidance in an example on multi-year arrangements.	8. In progress
December 2020	1. Regarding the staff's proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include	1. In progress

	consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector.	
December 2019	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations
Transfer Expenses		
June 2021	1. Assess and propose guidance on how the uncertainty of enforcement impacts the measurement of revenue or transfer expenses.	1. In progress
June 2021	2. Provide non-authoritative guidance to clarify that an entity should consider both explicit and implicit consequences in its assessment of the mechanisms of enforceability in a binding arrangement.	2. In progress
April 2021	1. Reconsider the working title of the proposed transfer expense standard after reviewing and assessing constituent comments on scope.	1. In progress – tentatively expect to retain the title ‘Transfer Expenses’ based on Agenda Item 4.2.3
April 2021	2. Clarify through additional guidance on types of expense transactions within the scope of transfer expense standard.	2. See Agenda Item 4.2.3
April 2021	3. Consider whether there are any useful implementation examples that clearly communicate the principles and are jurisdictionally neutral.	3. In progress
April 2021	4. Assess whether the transfer provider’s right in a binding arrangement where the transfer provider has already satisfied or partially satisfied its obligation(s), meets the criteria for asset recognition in the Conceptual Framework.	4. See Agenda Item 4.2.2
April 2021	5. Further consider the distinction between transfer expenses with and without performance obligations by first focusing on principles at the higher level (present obligations), and then considering any	5. See Agenda Item 4.2.4

	incremental accounting guidance necessary for the subset (performance obligations).	
April 2021	6. Clarify in guidance that the transfer provider may provide non-cash assets as part of the fulfillment of specific obligations in a binding arrangement.	6. In progress
April 2021	7. Propose guidance on how to account for transfer expense transactions in both the separate and consolidated financial statements of counterparties within the same economic entity, with consideration of any relevant existing guidance in IPSAS 35.	7. In progress
April 2021	8. Consider whether disclosures are necessary for binding arrangements that are equally unfulfilled at reporting date; and if so, what disclosures are required.	8. In progress
April 2021	9. Consider whether the term “present obligation” is appropriate when the binding arrangement is equally unfulfilled, as there would not yet be a binding obligation where there is little or no realistic alternative to avoid outflow of resources.	9. In progress
April 2021	10. Consider the nature of the asset that would be recognized by the transfer provider when the transfer recipient has a present obligation.	10. See Agenda Item 4.2.2
April 2021	11. Consider what constitutes an onerous contract for a transfer expense.	11. See Agenda Item 4.2.3
April 2021	12. Provide specific guidance through examples on accounting for partially fulfilled binding arrangements.	12. In progress
December 2020	1. Regarding the staff's proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector.	1. In progress

Agenda Item 4.1.2

December 2019	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses
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DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Revenue		
June 2021	1. Retain the definition of a 'binding arrangement' in the Revenue standard(s), as it is conceptually consistent with the definitions elsewhere in IPSAS literature, with the following minor wording revisions: include "for the purposes of this Standard," and "enforceability through legal or equivalent means", and change "both parties" to "the parties".	1. Incorporated in draft IPSAS based on ED 71. Basic for Conclusion (BC) pending.
June 2021	2. Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue.	2. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	3. Confirm that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement, and the guidance proposed in paragraph 21 should be added as Application Guidance.	3. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	4. Confirm that the assessment of enforceability of a binding arrangement occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that binding arrangement.	4. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	5. Confirm that legal or equivalent means is consistent with 'legal obligation' as described in the Conceptual Framework Chapter 5 and is not 'non-legally binding obligation'	5. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	6. Revise the definition of a liability in the IPSASB's Conceptual Framework by replacing 'outflow of resources' with 'transfer of resources' as the revised wording clarifies (i.e., does not substantially change) the underlying concepts.	6. See Conceptual Framework Agenda Item 3.2.7. Also incorporated in draft IPSAS based on ED 71

Agenda Item 4.1.3

June 2021	7. Incorporate additional guidance and examples into the Conceptual Framework on 'transfer of resources', as outlined in the Agenda Item, to clarify the ambiguities associated with what entails a 'transfer of resources'	7. See Conceptual Framework Agenda Item 3.2.7.
April 2021	1. Confirm, for revenue, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations).	1. Incorporated in draft IPSAS based on ED 71. BC pending
April 2021	2. An entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitutes a single asset or liability.	2. See June Agenda Items 6.2.1 and 6.3.1. Final BC reference pending
March 2021	1. Revise the title(s) of the proposed revenue standard(s) to reflect the nature of revenue transactions in the public sector.	1. In progress
March 2021	2. For the time being, continue to present revenue guidance as two separate standards with the standard based on ED 71, <i>Revenue without Performance Obligations</i> first (i.e., Option 1).	2. In progress
March 2021	3. Retain the concept of a binding arrangement as a fundamental concept for revenue accounting, and that the existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present obligation.	3. June Agenda Items 6.2.1 and 6.3.1 are incorporated in draft IPSAS based on ED 71. Final BC reference pending
March 2021	4. Adopt the principle that enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations.	4. June Agenda Items 6.2.1 and 6.3.1 are incorporated in draft IPSAS based on ED 71. Final BC reference pending

Agenda Item 4.1.3

March 2021	5. Highlight that an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable.	5. June Agenda Items 6.2.1 and 6.3.1 are incorporated in draft IPSAS based on ED 71. Final BC reference pending
March 2021	6. Retain revenue from performance obligations as a separate type of revenue.	6. In progress
March 2021	7. Highlight that performance obligations are a subset of present obligations that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary.	7. In progress
March 2021	8. Revise existing Application Guidance to state that, where there is objective evidence that a portion of consideration relates to the transfer of distinct goods or services to the purchaser/transfer provider or a third-party beneficiary, disaggregate the transaction price and account for the component(s) relating to the transfer of distinct goods or services in accordance with ED 70, <i>Revenue with Performance Obligations</i> then use ED 71 to account for any remaining component(s). If the portion is unclear, account for the entire transaction in accordance with ED 71.	8. In progress
March 2021	9. Highlight that enforceability in a binding arrangement gives rise to a liability (deferred revenue) for the transfer recipient to the extent that the terms of the arrangement are not yet satisfied.	9. In progress – Decision will be addressed concurrently with Agenda Item 4.2.1
March 2021	10. Proceed with the proposed revenue project plan, use in-period review sessions as needed, and revisit the need, role, and composition of a Task Force in Q2 2021.	10. See Agenda Item 4.2.5
December 2020	1. Reorder the draft guidance in ED 70 and ED 71 to begin with ED 71, either as a separate standard, or a combined standard.	1. In progress
December 2020	2. Address concerns over the nature and length of disclosures in all three EDs by taking a principles-based	2. In progress

	approach focusing on the nature of the transactions and their risks.	
December 2019	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations
Transfer Expenses		
June 2021	1. Incorporate the definition of a 'binding arrangement' (as decided above for Revenue) into the final Transfer Expenses standard to ensure the standards are conceptually consistent and freestanding.	1. Incorporated in draft IPSAS based on ED 72. BC pending.
June 2021	2. Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue.	2. Incorporated in draft IPSAS based on ED 72. BC pending.
June 2021	3. Confirm that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement, and the guidance proposed in paragraph 21 should be added as Application Guidance.	3. Incorporated in draft IPSAS based on ED 72. BC pending
June 2021	4. Confirm that the assessment of enforceability of a binding arrangement occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that binding arrangement.	4. Incorporated in draft IPSAS based on ED 72. BC pending
June 2021	5. Confirm that legal or equivalent means is consistent with 'legal obligation' as described in the Conceptual Framework Chapter 5 and is not 'non-legally binding obligation'	5. Incorporated in draft IPSAS based on ED 72. BC pending
June 2021	6. Revise the definition of a liability in the IPSASB's Conceptual Framework by replacing 'outflow of resources' with 'transfer of resources' as the revised wording	6. See Agenda Item 3.2.7. Also incorporated in draft IPSAS based on ED 72

Agenda Item 4.1.3

	clarifies (i.e., does not substantially change) the underlying concepts.	
April 2021	1. Address principle-related issues raised by constituents first, before considering other issues raised.	1. In progress
April 2021	2. Revise the presentation of guidance in the transfer expense standard to better reflect the public sector.	2. Incorporated in draft IPSAS based on ED 72. BC pending
April 2021	3. Retain binding arrangement as a fundamental concept for transfer expense accounting. Principles related to binding arrangements should be consistent. Identification and assessment of a binding arrangement is from the perspective of the entity.	3. See June Agenda Items 6.2.2 and 6.3.2. BC pending
April 2021	4. Confirm that, in a binding arrangement, each party will have at least one present obligation.	4. See June Agenda Items 6.2.2 and 6.3.2 BC pending
April 2021	5. Confirm that enforceability can be demonstrated by various mechanisms in transfer expense accounting, and all relevant factors should be considered in that analysis.	5. See June Agenda Items 6.2.2 and 6.3.2 BC pending
April 2021	6. Confirm that enforceability of a binding arrangement may give rise to an asset for the transfer provider when it is partially fulfilled.	6. In progress – Decision will be addressed concurrently with Agenda Item 4.2.2
April 2021	7. Be conceptually consistent with the present obligation principles developed for revenue, and consider substance of the arrangement from the different perspectives (transfer provider vs. transfer recipient) in assessing whether to retain the distinction of performance obligations for transfer expense accounting.	7. See Agenda Item 4.2.4
April 2021	8. Consider the implication of the IPSASB's decision on the treatment of "consideration not directly attributable to the transfer of distinct goods or services" at a later date, based on the decision to either retain or remove the distinction of transfer expenses with and without performance obligations.	8. In progress

Agenda Item 4.1.3

April 2021	9. Incorporate executory contract accounting principles without explicitly referring to the term executory contracts. Drafting should refer to specific principles to account for binding arrangements.	9. Incorporated in draft IPSAS based on ED 72. BC pending
April 2021	10. Confirm, for transfer expenses, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations).	10. Incorporated in draft IPSAS based on ED 72. BC pending
April 2021	11. Confirm an entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitute a single asset or liability.	11. See June Agenda Items 6.2.2 and 6.3.2. BC pending
December 2020	1. Address concerns over the nature and length of disclosures in all three EDs by taking a principles-based approach focusing on the nature of the transactions and their risks.	1. In progress
December 2019	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses

Recognition and Derecognition of a Liability (Deferred Revenue) in Binding Arrangements (Revenue)

Question

1. Does the IPSASB agree with staff recommendations?

Recommendations

2. Staff recommend revising guidance to clarify:
 - (a) An entity (i.e., transfer recipient) in a binding arrangement recognizes a liability (i.e., deferred revenue) when both criteria are met:
 - (i) The transfer recipient receives resources associated with its unfulfilled or partially unfulfilled obligation in a binding arrangement; and
 - (ii) If the transfer recipient does not fulfill its obligations associated with the resources received, the terms of the binding arrangement require it to transfer resources to another party, such as right of return or something economically similar (i.e., directly associated with a consequence of non-completion).
 - (b) This liability (deferred revenue) is extinguished as the transfer recipient fulfills its obligations to earn revenue.

Background

3. The IPSASB began discussing constituent comments received in response to Exposure Draft (ED) 71, *Revenue without Performance Obligations* in [March 2021](#) and continued in [June 2021](#). One principle-related issue discussed is whether a liability exists in a binding arrangement without performance obligations (i.e., whether and when a transfer recipient recognizes a liability). Some constituents had indicated that ED 71 is not clear on what gave rise to a liability in a binding arrangement. A few respondents considered the liability to only arise from a return (i.e., repayment) obligation, as per IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
4. Based on preliminary discussions, the IPSASB decided that a present obligation with an unavoidable 'outflow' (i.e., transfer) of resources gives rise to a liability (deferred revenue), but further analysis was required in relation to the specific nature and recognition of this liability.
5. This paper is intended to provide this analysis, incorporating key IPSASB decisions made to date, to (1) discuss the nature and recognition of a liability in revenue accounting, and (2) address how revenue is recognized as such a liability (deferred revenue) is satisfied.

Analysis

In the Context of a Binding Arrangement

6. Public sector revenues can arise from transactions without binding arrangements¹ or with binding arrangements. Constituent comments on the existence and recognition of a liability were in the

¹ Per IPSASB decision in June 2021, binding arrangement is currently defined as "...an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the arrangement."

context of present obligations (a type of revenue with binding arrangements)². Thus, the analysis in this paper is in the context of a binding arrangement.

7. The IPSASB made several decisions about binding arrangements, and enforceability of binding arrangements, which support the analysis on whether a liability (deferred revenue) exists, including:
 - (a) The enforceability of a binding arrangement allows the entity to hold the other parties accountable, to either fulfill the stated obligations or face consequences if the stated obligations are not fulfilled³; and
 - (b) The existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present obligation.

Recognition of a Liability

8. The IPSASB's discussions in March 2021 highlighted the need to clarify what constitutes an 'outflow of resources'. 'Outflow of resources' is a component of the liability definition in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)*. The IPSASB decided in June 2021 to revise the definition to reference 'transfer of resources' and clarify ambiguities using additional guidance.⁴
 - (a) The revised definition in *Conceptual Framework* will be "a liability is a **present obligation** of the entity for a **transfer of resources** that results from **past events**." (emphasis added)⁵
 - (b) Additional guidance will clarify that, for a liability to exist, the transfer of resources as a result of past events would be to another party, and be incremental (i.e., the entity would not have otherwise had to transfer resources if the past events did not occur).

When a Present Obligation Gives Rise to a Liability

9. Staff incorporated the above in considering whether the liability definition is met for the transfer recipient:

Consideration	Scenario 1 <i>Transfer provider fulfills its obligation first</i>	Scenario 2 <i>Transfer recipient fulfills its obligation first</i>
Transfer recipient has a present obligation	Yes – All binding arrangements include at least one present obligation as defined in ED 71.	Yes – All binding arrangements include at least one present obligation as defined in ED 71.
Past events have occurred	Yes – Both parties entered into a binding arrangement as a willing party. The transfer provider fulfilled its obligation (to provide resources promised in the binding arrangement) before the transfer recipient fulfills its obligation.	Yes – Both parties entered into a binding arrangement as a willing party. The transfer recipient fulfilled its obligation (i.e., either a present obligation or a performance obligation) before the transfer provider fulfills its obligation.

² See staff's summary in March 2021 Agenda Item 5.2.7 for further detail on constituent comments.

³ The predominant, but not sole, consequence is a right of return. Other consequences may ultimately lead to a form of, or be economically consistent with the concept of, a right of return. The Board decided to take a principle-based approach since consequences are not prescriptive and will vary by jurisdiction and binding arrangement.

⁴ The IPSASB agreed in June 2021 that revising the definition of a liability in the IPSASB *Conceptual Framework* (by replacing 'outflow of resources' with 'transfer of resources') clarifies the underlying concept. The revision does not, and is not intended to, substantially change the meaning of the underlying concept. Additional guidance, summarized in Agenda Item 3.2.7, leverages useful guidance presented in the IASB Conceptual Framework.

⁵ As presented in Agenda Item 3.2.7.

Consideration	Scenario 1 <i>Transfer provider fulfills its obligation first</i>	Scenario 2 <i>Transfer recipient fulfills its obligation first</i>
Transfer of resources required (as a result of the identified past events)	Yes – Since the transfer recipient has received resources after entering into a binding arrangement as a willing party (past events), it must fulfill its obligations to earn revenue, or face consequences (which may require an incremental transfer of resources to another party). Such a consequence is enforceable by the transfer provider.	No – There is no transfer of resources or potential consequences remaining for the transfer recipient because it has already fulfilled its obligations in the binding arrangement.
Is the definition of liability met?	Yes, a present obligation would give rise to a liability (deferred revenue) when specific criteria are met.	No, a present obligation would not give rise to a liability (deferred revenue) when the transfer recipient fulfills its obligations before receiving resources related to that fulfilled obligation.

[Appendix 1](#) provides staff's detailed analysis.

10. The analysis indicates that a present obligation may give rise to a liability (deferred revenue) in a binding arrangement, if certain circumstances are prevalent (i.e., specific criteria are met). Staff conclude that an entity recognizes a liability (deferred revenue) when **both** criteria are met:
- (a) **The transfer recipient receives resources associated with its unfulfilled or partially unfulfilled obligation in a binding arrangement** – As a result, the transfer recipient has not yet earned revenue; and
 - (b) **The transfer recipient is required to transfer resources to another party if it does not fulfill its obligations** – The enforceability of the binding arrangement would impose a consequence on the transfer recipient that requires a transfer of resources. These consequences require a transfer of resources that the transfer recipient would not otherwise have had to transfer (i.e., incremental) had it not willingly entered the binding arrangement and received resources from the transfer provider associated with an unfulfilled or partially unfulfilled obligation (i.e., as a consequence of past events).

In essence, a liability (deferred revenue) exists, and should be recognized by the transfer recipient. This is because it has not yet earned revenue by fulfilling its obligation(s) based on the terms of that binding arrangement. The transfer recipient's liability is directly related with the consequences for any obligation(s) not yet satisfied.

Next Steps

11. The result of this analysis is consistent with discussions in March 2021, where the Board's preliminary conclusion was that enforceability in a binding arrangement gives rise to a liability (deferred revenue) to the extent that the terms of the arrangement are not yet satisfied. Existing guidance (to be incorporated into the draft IPSAS) should be revised to:
- (a) Better capture the principle and necessary circumstances that result in the existence and recognition of a liability (deferred revenue) in a binding arrangement.

- (b) Replace the term 'outflow of resources' with 'transfer of resources' to be consistent with the IPSASB's decision to make the clarification in the IPSASB Conceptual Framework.

Recognizing Revenue as the Liability is Extinguished

12. After initial recognition, the liability (deferred revenue) is reduced over time as (or fully extinguished at a point in time when) the transfer recipient fulfills the present obligation associated with resources previously received. The transfer recipient earns revenue as it fulfills its present obligation. The liability (deferred revenue) is reduced as the transfer recipient earns the revenue.
13. The transfer recipient (i.e., the entity) measures its progress in fulfilling its obligation to determine when it earns revenue and decreases the existing liability (deferred revenue). An entity can measure progress in various ways. Staff provide an example, for illustrative purposes, of how the fulfillment of a present obligation decreases an entity's liability (deferred revenue) and results in recognition of revenue in [Appendix 2](#).

Decision Required

14. Does the IPSASB agree with the staff recommendations?

Appendix 1 – Detailed Analysis: Existence of a Liability (Deferred Revenue) in a Binding Arrangement

1. As noted in paragraphs 7-8, the IPSASB made decisions on several principles and concepts which support this analysis, including:
 - (a) The concept and enforceability of binding arrangements in revenue accounting;
 - (i) Can arise from various mechanisms, created through legal or equivalent means;
 - (ii) Requires consideration of all relevant factors to determine whether any mechanism(s) provide(s) the entity with the ability to hold the other parties in the binding arrangement accountable; and
 - (iii) Is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement.⁶
 - (b) The existence of at least one present obligation in all binding arrangements; and
 - (c) The revised definition of (and guidance on) a liability (see Agenda Item 3.2.7). The proposed revisions and clarifying guidance provide two useful considerations for this analysis. A liability would:
 - (i) Require the transfer recipient to transfer resources to another party/parties (see revised Conceptual Framework 5.16A, in Agenda Item 3.3.2); and
 - (ii) Entail an incremental transfer of resources (i.e., that the transfer recipient would not otherwise have had to transfer) as a result of past events. Specifically, a present obligation exists as a result of past events only if the entity has already obtained benefits or taken an action; and as a consequence, the entity will or may have to transfer a resource that it would not otherwise have had to transfer. (emphasis added, see revised Conceptual Framework 5.17A, in Agenda Item 3.3.2)
2. Staff use two scenarios in assessing if, and when, a present obligation gives rise to a liability (deferred revenue). Consistent with June 2021 [Agenda Item 6.2.3](#), these scenarios are in the context of revenue arising from a transaction with a binding arrangement with only two parties, for simplicity.
 - (a) Scenario 1: Transfer provider fulfills its obligation first by providing resources, before the recipient fulfills its obligation in accordance with the binding arrangement.
 - (b) Scenario 2: Transfer recipient fulfills its present obligation or performance obligation first, before the transfer provider fulfills its obligation in accordance with the binding arrangement.

⁶ The predominant, but not sole, consequence is a right of return. Other consequences may ultimately lead to a form of, or be economically consistent with the concept of, a right of return. The Board decided to take a principle-based approach since consequences are not prescriptive and will vary by jurisdiction and binding arrangement.

Scenario 1: Transfer provider fulfills its obligation first

Consideration	Staff Analysis
Entity has a present obligation	Yes – All binding arrangements include at least one present obligation as defined in ED 71. Thus, the transfer recipient has at least one present obligation once it willingly enters a binding arrangement.
Past events have occurred ⁷	Yes – When the two parties have willingly entered into a binding arrangement, and transfer provider fulfills its obligation (to provide resources promised in the binding arrangement), the binding arrangement is partially fulfilled. This may trigger specific accounting.
Transfer of resources required (as a result of the identified past events)	<p>Yes – As a result of the past events...</p> <p>The transfer provider:</p> <ul style="list-style-type: none"> • Retains control of the resources it has provided until the transfer recipient fulfills its obligations; and • Can impose consequences on the transfer recipient if it does <u>not</u> fulfill its obligations because binding arrangements are, by definition, enforceable.⁸ <p>The transfer recipient:</p> <ul style="list-style-type: none"> • Entered into a binding arrangement as a willing party, and has obtained benefits (i.e., resources) from the transfer provider, as part of the binding arrangement's rights and obligations; and • Faces consequences if it does <u>not</u> fulfill its obligations to earn the resources received to date (i.e., a specified uncertain future event). <p>Consequences for transfer recipient of non-completion generally require a 'transfer of resources':</p> <ul style="list-style-type: none"> • If the transfer recipient does <u>not</u> fulfill its obligations in the binding arrangement to earn the revenue, the transfer recipient must face the consequences imposed by the enforceability of the binding arrangement. • There would be no consequence <u>if the past events did not occur</u> (i.e., if the transfer recipient had not willingly entered the binding arrangement, and received resources from the transfer provider). • Consequences vary by jurisdiction and binding arrangement. The predominant consequence (presented in June Agenda Item 6.2.3) is a right of return, or a consequence economically consistent with a right of return. This could be explicit or implicit in the binding arrangement, and constitutes a transfer of resources back to the transfer provider. Thus, some consequences of non-completion may require the transfer recipient to transfer a resource to the transfer provider (i.e., <i>another party</i>), that it would not otherwise have had to transfer (i.e., <i>incremental</i>).
Summary	<p>A present obligation would give rise to a liability (deferred revenue) when the transfer recipient:</p> <ol style="list-style-type: none"> (1) Receives resources associated with its unfulfilled or partially unfulfilled obligation in a binding arrangement; and (2) Is required to transfer resources to another party (i.e., a right of return, or something economically similar) if it does not fulfill its obligations associated with receipt of that resource. <p>Thus, a liability (deferred revenue) exists, and should be recognized, when the transfer recipient has not yet earned revenue.</p>

⁷ Guidance provided in the IPSASB *Conceptual Framework*, Chapter 5.

⁸ June 2021 [Agenda Item 6.2.3](#) provides detailed analysis about how mechanisms of enforceability impose consequences on partially fulfilled binding arrangements, and potential consequences of non-completion. The consequence may be in the form of repayment, penalties, or other consequences that are enforced through legal or equivalent means and will depend on the specific facts and circumstances of that binding arrangement. The Board decided to take a principle-based approach since consequences are not prescriptive and will vary by jurisdiction and binding arrangement.

Scenario 2: Transfer recipient fulfills its obligation first

Consideration	Staff Analysis
Entity has a present obligation	Yes – All binding arrangements include at least one present obligation as defined in ED 71. Thus, the transfer recipient has at least one present obligation once it willingly enters a binding arrangement.
Past events from occurred	Yes – When the two parties have willingly entered into a binding arrangement, and transfer recipient fulfills its obligation (i.e., either a present obligation or a performance obligation), the binding arrangement is partially fulfilled. This may trigger specific accounting.
Transfer of resources required (as a result of the identified past events)	<p>No – As a result of the past events...</p> <p>The transfer recipient:</p> <ul style="list-style-type: none"> • Has an enforceable right to receive the promised resources from the transfer provider (i.e., earned the revenue), equal to consideration associated with the present obligation or performance obligation it has fulfilled to date; • Can impose consequences on the transfer provider if it does <u>not</u> fulfill its obligations because binding arrangements are, by definition, enforceable. <p>The transfer provider:</p> <ul style="list-style-type: none"> • Has not fulfilled its obligations in the binding arrangement and owes the promised resources to the transfer recipient as a result of this past event; • Faces consequences if it does <u>not</u> fulfill its obligations (i.e., a specified uncertain future event). <p>Consequences for transfer recipient of non-completion generally require a ‘transfer of resources’:</p> <ul style="list-style-type: none"> • None. The transfer recipient has earned revenue but not yet received promised resources associated with the fulfilled obligation. There are no consequences as the transfer recipient has fulfilled its obligations in the binding arrangement, and no further transfer is required as a result of past events.
Summary	A present obligation would not give rise to a liability (deferred revenue) when the transfer recipient fulfills its obligation before receiving resources related to that fulfilled obligation.

When a Breach of the Binding Arrangement Gives Rise to a Liability

- Staff note that some binding arrangements may also have fines or penalties associated with a breach in the binding arrangement as a whole (i.e., not directly associated with fulfilling specific obligations according to the outlined terms, as presented in the above scenarios). The consequences from a breach not directly related to the fulfillment of specific agreed-upon obligations may vary by jurisdiction and binding arrangement. An entity should consider the substance, facts and circumstances in any breach to determine whether a liability exists under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Appendix 2 – Example for Discussion Purposes

1. For illustrative purposes, consider a scenario where two parties willingly enter into a binding arrangement on January 1, 2021, where a municipal government (transfer provider) has engaged a hospital (transfer recipient) to acquire and administer one vaccine to each of its 10,000 hospital employees. This is a present obligation (that is not a performance obligation, as the good is not transferred to the transfer provider nor a third-party beneficiary).

2. Illustrative journal entries are as follows:

(a) The hospital receives resources (CU 200,000, or CU 20 per vaccine) from the municipal government at the beginning of the transaction, and the transfer recipient has not yet fulfilled its present obligation. Thus, it has not yet earned revenue.

DR.	Cash	200,000	
CR.	Liability (Deferred Revenue)		200,000

(b) By March 31, 2021, the hospital had acquired and administered only 3,000 vaccines. This action *partially* fulfills the hospital's obligation of acquiring and administering 10,000 vaccines to its 10,000 employees. In effect, the hospital is able to recognize revenue earned (CU 60,000) and decrease its liability (deferred revenue).

DR.	Liability (Deferred Revenue)	60,000	
CR.	Revenue		60,000

(c) By September 30, 2021, the hospital has acquired and administered the remaining 7,000 vaccines (i.e., finished acquiring and administering all 10,000 vaccines to its 10,000 employees). The hospital has *fully* fulfilled its obligations, which extinguishes its liability (deferred revenue) and resources received from the government is earned revenue.

DR.	Liability (Deferred Revenue)	140,000	
CR.	Revenue		140,000

Existence of an Asset in Binding Arrangements (Transfer Expenses)

Question

1. Does the IPSASB agree with staff recommendations?

Recommendations

2. Staff recommend that the IPSASB:
 - (a) Agree that where the transfer provider in a binding arrangement transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the transfer provider's enforceable right to have the transfer recipient fulfill its obligations (or face consequences outlined in the binding arrangement) meets the definition of an asset; and
 - (b) Revise the accounting model(s) for transfer expenses where the transfer recipient has a present obligation but not a performance obligation to reflect the existence of an asset where the transfer provider transfers cash or other resources prior to the transfer recipient fulfilling its obligations (as well as the IPSASB's decision about the distinction between transfer expenses with and without performance obligations in [Agenda Item 4.2.4](#)).

Background

3. A key question in the development of ED 72, *Transfer Expenses*, was whether a transfer provider has an asset where it has transferred cash (or another asset) to a transfer recipient prior to the transfer recipient fulfilling the obligations they had assumed under the binding arrangement.
4. ED 72 concluded that the transfer provider would have an asset where the transfer recipient had a performance obligation (a requirement to transfer goods or services to a third-party beneficiary), but would not have an asset where the transfer recipient had a present obligation other than a performance obligation. Although performance obligations are a subset of present obligations, ED 71, *Revenue without Performance Obligations*, used the term present obligation to refer to present obligations other than performance obligations).
5. A significant number of respondents questioned this conclusion and the resulting differing accounting treatments proposed in ED 72. These responses raised questions of principle that the IPSASB will need to consider in developing a Transfer Expenses IPSAS based on ED 72.
6. The IPSASB began its consideration of these responses at its [April 2021](#) meeting. The IPSASB instructed staff to:
 - (a) Assess whether the transfer provider's right in a binding arrangement where the transfer provider has already fulfilled or partially fulfilled its obligation(s), meets the criteria for asset recognition in the *Conceptual Framework*.
 - (b) Consider the nature of the asset that would be recognized by the transfer provider when the transfer recipient has a present obligation.
7. At this meeting, the IPSASB also made the following decisions that are relevant to the analysis of issues in paragraph 6:
 - (a) Retain binding arrangement as a fundamental concept for transfer expense accounting. Principles related to binding arrangements should be consistent. Identification and assessment of a binding arrangement is from the perspective of the entity.

- (b) Confirmed that, in a binding arrangement, each party will have at least one present obligation.
 - (c) Confirmed that enforceability of a binding arrangement may give rise to an asset for the transfer provider when it is partially fulfilled.
 - (d) Confirmed, for transfer expenses, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous.
 - (e) Confirmed an entity's rights and obligations within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitute a single asset or liability.
8. At its [June 2021](#) meeting, the IPSASB made further decisions that are relevant to the analysis of issues in paragraph 6:
- (a) Clarified in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue.
 - (b) Confirmed that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement.

Analysis

9. The revised definition of an asset in the *Conceptual Framework* is a “**resource** presently **controlled by the entity** as a **result of past events**.”⁹ (emphasis added)
10. When considering whether a transfer provider has an asset where it has transferred resources prior to a transfer recipient fulfilling its obligations, the IPSASB will need to identify whether there is a resource, and if so, whether it is controlled by the transfer provider.

Transfer Expenses without Binding Arrangements

11. This analysis focuses on those transfer expenses where there is a binding arrangement with the transfer recipient that imposes one or more obligations on the transfer recipient (transfer expenses from transactions with binding arrangements, referred to in this paper as transfer expenses with binding arrangements).
12. Many transfer expenses will occur without there being a binding arrangement (transfer expenses from transactions without binding arrangements, referred to in this paper as transfer expenses without binding arrangements). In such cases, the transfer provider will have no enforceable rights against the transfer recipient. The lack of enforceable rights means that the transfer provider could not control any potential asset. It follows that the transfer provider will not have an asset where there is no binding arrangement, and will recognize an expense when the resources are transferred. This approach was adopted in ED 72 and was strongly supported by respondents.

Transfer Expenses with Binding Arrangements

13. Where a transfer expense arises as a result of a binding arrangement, both the transfer provider and the transfer recipient will have rights and obligations (as the IPSASB has already agreed). The

⁹ As presented in Agenda Item 3.2.6.

fulfillment of each party’s obligations and the relative timing of the fulfillment of those obligations determine which elements are recognized. For the transfer provider, the possibility of an asset existing occurs in only one of four scenarios:

<p>Scenario 1: Neither party has fulfilled their obligations.</p>	<p>No asset can arise for the transfer provider. The IPSASB has decided that that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement unless the binding arrangement is onerous.</p>
<p>Scenario 2: Both parties have fulfilled their obligations.</p>	<p>No asset can arise for the transfer provider. The transfer provider’s right has been extinguished by the transfer recipient’s fulfillment of its obligation. The transfer provider recognizes an expense and derecognizes the asset representing the resources transferred to the transfer recipient.</p>
<p>Scenario 3: Transfer recipient fulfills its obligations prior to the transfer provider fulfilling its obligations.</p>	<p>No asset can arise for the transfer provider. The transfer provider’s right has been extinguished by the transfer recipient’s fulfillment of its obligation. The transfer provider recognizes an expense and a liability for its obligations to transfer resources to the transfer recipient.</p>
<p>Scenario 4: Transfer provider fulfills its obligations prior to the transfer recipient fulfilling its obligations.</p>	<p>An asset <u>may</u> arise for the transfer provider. The transfer provider’s right continues to exist as the transfer recipient has not fulfilled its obligation. The transfer provider has fulfilled its obligation by transferring the resources. This paper considers whether the transfer provider’s right meets the definition of an asset in the <i>Conceptual Framework</i>; and if so, the nature of that asset.</p>

A more detailed analysis is provided in [Appendix 1](#).

Transfer Provider Fulfills its Obligations Prior to the Transfer Recipient Fulfilling its Obligations

14. Under scenario 4, the transfer provider’s right to have the transfer recipient fulfill its obligations remains. This right will meet the definition of an asset if it (1) meets the definition of a resource; (2) is controlled by the transfer provider; and (3) results from past events.
15. Staff consider that the key issue is whether the right to have the transfer recipient fulfill its obligations meets the definition of a resource. Staff consider when this is the case, the transfer provider controls the resource because:
 - (a) Rights must be enforceable for a binding arrangement to exist, as previously decided by the IPSASB;
 - (b) When the right is enforceable, the transfer provider has the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the binding arrangement; and

- (c) Enforceability allows the transfer provider to control the right to have the transfer recipient fulfill its obligations (or to impose consequences, such as a return of the transferred resources, if the transfer recipient does not do so).

16. The past events that gives rise to the recognition of an asset are the entering into the binding arrangement, followed by the transfer of resources by the transfer provider to the transfer recipient.

Is the Right to have the Transfer Recipient Fulfill its Obligations a Resource?

17. The revised description of a resource in the *Conceptual Framework* is as follows¹⁰:

“A resource is an item with service potential or the capability to generate economic benefits or both. Physical form is not a necessary condition of a resource. The service potential or capability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource. Some resources embody an entity’s rights to a variety of benefits including, for example, the right to:

- Use the resource to provide services¹¹;
- Use an external party’s resources to provide services, for example, leases;
- Convert the resource into cash through its disposal;
- Benefit from the resource’s appreciation in value;
- Receive a stream of cash flows; or
- Extinguish or reduce a liability by transferring the resource.”¹²

18. In considering whether the transfer provider’s right to have the transfer recipient fulfill its obligations meets the definition of a resource, it is important to note that this right can take various forms:

- (a) The right to have the transfer recipient deliver goods or services to the transfer provider (this right does not meet the definition of a transfer expense, and is outside the scope of the proposed Transfer Expenses IPSAS);
- (b) The right to have the transfer recipient deliver goods or services to third-party beneficiaries (referred to as a performance obligation in ED 72); and
- (c) The right to have the transfer recipient fulfill obligations other than performance obligations (referred to in ED 71 as present obligations) or to impose consequences on the transfer recipient, such as the return of the transferred resources, if they fail to fulfill their obligations.

Right to have the Transfer Recipient Deliver Goods or Services to the Third-Party Beneficiaries

19. The right to have the transfer recipient deliver goods or services to third-party beneficiaries is similar to the right to have the transfer recipient deliver goods or services to the transfer provider (where the recognition of an asset in an exchange/commercial arrangement is commonplace); only the recipient of the goods or services is different.

20. This type of right also arises in exchange/commercial arrangements, and the recognition of the right as an asset is again commonplace. The purchaser (exchange/commercial arrangements) and the

¹⁰ As presented in Agenda Item 3.2.6.

¹¹ References to ‘services’ in the *Conceptual Framework* encompass ‘goods’.

¹² *Conceptual Framework*, paragraph 5.7.

transfer provider (transfer expenses) can use the resource to provide services, the first example given in the *Conceptual Framework* discussion of a resource (see paragraph 17 above).

21. In ED 72, the right to have the transfer recipient deliver goods or services to third-party beneficiaries was referred to as a transfer expense with performance obligations. Where the transfer provider had provided resources (usually cash) in advance of the transfer recipient providing goods or services to third-party beneficiaries, ED 72 required the transfer provider to recognize an asset. Respondents to ED 72 generally supported the recognition of an asset for transfer expenses with performance obligations.
22. However, some respondents proposed that all transfer expenses be recognized as an expense immediately. Staff do not support this proposal because the right to have the transfer recipient deliver goods or services to third-party beneficiaries satisfies the *Conceptual Framework* definition of a resource, and should therefore be recognized as an asset. This will also ensure consistent accounting with the revenue project and with exchange/commercial arrangements that have similar terms.

Right to have the Transfer Recipient Fulfill Obligations other than Performance Obligations

23. ED 71 referred to transfer recipients' obligations other than performance obligations as present obligations. ED 71 used this term to refer to those present obligations that did not also meet the definition of a performance obligation rather than in its wider sense.
24. Under ED 72, a transfer provider recognizes an expense when it transfers resources where the transfer recipient has a present obligation. Some respondents disagreed with this approach, arguing that the right to have the transfer recipient fulfill the present obligation gives the transfer provider an asset. These respondents considered that the substance of the right meets the definition of an asset in the *Conceptual Framework*. They also considered that the substance was similar to the right to have the transfer recipient deliver goods or services to third-party beneficiaries as in both cases the transfer provider has a right to require the transfer recipient to carry out the tasks required to fulfill their obligation, without the transfer provider directly receiving anything in return.
25. From the transfer provider's perspective, the right to have the transfer recipient fulfill present obligations has both similarities and differences with the other types of rights considered above.
26. The rights are similar in that the transfer recipient is required to fulfill their obligations.
27. The rights are different because:
 - (a) The right to have the transfer recipient fulfill present obligations does not require the transfer of specified goods and services; and
 - (b) Fulfillment of the transfer recipient's obligation may involve a transfer of resources in other cases but not in others (although the transfer recipient may have a requirement to transfer resources as a consequence of not fulfilling the obligation).
28. Despite the fact that the right to have the transfer recipient fulfill present obligations does not require the transfer of specified goods and services, staff consider that the right is an item with service potential, and therefore meets the definition of a resource.

29. The *Conceptual Framework* describes service potential as “the capability to provide services that contribute to achieving the entity’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.”¹³
30. Staff consider that the right to have the transfer recipient fulfill present obligations will allow the transfer provider to achieve its objectives, and therefore has service potential. The transfer provider may be able to use the right to provide services, or it may give the transfer provider the right to use an external party’s resources to provide services. These are the first two examples given in the *Conceptual Framework* discussion of a resource (see paragraph 17 above).
31. A transfer recipient’s present obligations may be fulfilled in different ways, and consequently the transfer provider’s right to have the transfer recipient fulfill present obligations may be satisfied by different types of action being taken. Staff present the following examples of actions which may give rise to service potential:

<p>Example 1: Transfer recipient is required to use resources to increase health services in a specified area</p>	<p>The transfer recipient provides an increased level of health services in the specified area, evidenced by the increased expenditure on those services. The transfer provider gains service potential from its right to have the transfer recipient fulfill its obligations. The transfer recipient fulfills its obligations by incurring increased expenditure on health services in the specified area.</p>
<p>Example 2: Transfer recipient is required to increase health services by undertaking vaccination activities</p>	<p>By undertaking vaccination activities, the transfer recipient provides an increased level of services. The transfer provider gains service potential from its right to have the transfer recipient fulfill its obligations. The transfer recipient fulfills its obligations by undertaking the vaccination activities.</p>
<p>Example 3: Transfer recipient is required to purchase or construct an asset to increase service delivery</p>	<p>By purchasing or constructing an asset, the transfer recipient gains an asset that can be used (directly or indirectly) to provide an increased level of services. The transfer provider gains service potential from its right to have the transfer recipient fulfill its obligations. The transfer recipient fulfills its obligations by using its resources (the new asset) in the delivery of services.</p>

32. The above examples are not exhaustive; in some cases, the transfer recipient may directly meet the transfer provider’s objectives by fulfilling its present obligations through its activities. For example, a transfer provider’s economic development objectives may be met directly by the transfer recipient incrementally incurring expenditure that supports economic development objectives, without the need for that expenditure to lead to an increase in specified services. The transfer provider would still gain service potential from the right to have the transfer recipient fulfill its obligations, as its objectives would be met.
33. In addition, there may be cases where the transfer recipient does not fulfill its obligations. In such cases, the transfer provider is able to impose consequences on the transfer recipient by exercising

¹³ *Conceptual Framework*, paragraph 5.8, with amendments proposed in Agenda Item 3.2.6.

the enforceability mechanisms in the binding arrangement, which may provide service potential or economic benefits to the transfer provider. For example, a common consequence is an obligation on the transfer recipient to return the funding received, which would provide an economic benefit to the transfer provider.

34. Further evidence that the transfer provider's right to have the transfer recipient carry out its present obligations can be found from the fact that an entity's right and obligation within a binding arrangement are directly linked and interdependent, as the IPSASB has already decided (see paragraph 7 above). When the binding arrangement is wholly unfulfilled, the combined right and obligation generally constitute a single asset or liability. If the right does not satisfy the definition of an asset, then it could not be combined with an item that meets the definition of a liability to produce a single asset or liability.

Conclusion

35. Staff have concluded that the above analysis demonstrates that where there is a binding arrangement and the transfer provider transfers cash or other resources prior to the transfer recipient fulfilling its obligations, the transfer provider's right to have the transfer recipient fulfill its obligations meets the definition of an asset.
36. Consequently, the transfer provider should recognize an asset at the point it transfers the resources, and derecognize the asset and recognize an expense as or when the transfer recipient fulfills its obligations, for both:
 - (a) Transfer expenses where the transfer recipient has a performance obligation (which is consistent with ED 72); and
 - (b) Transfer expenses where the transfer recipient has a present obligation (which differs from ED 72).
37. It follows that revised accounting will be required, as a minimum, for transfer expenses where the transfer recipient has a present obligation. The accounting requirements will also need to reflect the IPSASB's decision regarding any distinction between transfer expenses with and without performance obligations, discussed in [Agenda Item 4.2.4](#).

Decision Required

38. Does the IPSASB agree with the staff recommendations?

Appendix 1 – Detailed Analysis: Existence of an Asset in Binding Arrangements (Transfer Expenses)

- Where a transfer expense arises as a result of a binding arrangement, both the transfer provider and the transfer recipient will have rights and obligations (as the IPSASB has already agreed). The fulfillment of each party’s obligations and the relative timing of the fulfillment of those obligations determine which elements are recognized. The following table assesses whether the elements of the definition of an asset are satisfied for each scenario identified in paragraph 13 above.

	Transfer Provider has a Resource	Presently Controlled by the Entity	As a Result of Past Events
Scenario 1: Neither party has fulfilled their obligations.	No. The right to have the transfer recipient fulfill its obligation does not exist independently from the obligation to transfer resources.	N/A. There is no resource to be controlled.	No. The signing of the binding arrangement is the past event for recognition of a combined right and obligation, not a separate asset.
Scenario 2: Both parties have fulfilled their obligations.	No. The right to have the transfer recipient fulfill its obligation has been extinguished as the obligation has been fulfilled.	N/A. There is no resource to be controlled.	No. The transfer of resources may have been the past event giving rise to a resource, but only until the transfer recipient fulfilled its obligations, at which point the transfer provider’s right was extinguished.
Scenario 3: Transfer recipient fulfills its obligations prior to the transfer provider fulfilling its obligations.	No. The right to have the transfer recipient fulfill its obligation has been extinguished as the obligation has been fulfilled.	N/A. There is no resource to be controlled.	No. The fulfillment by the transfer recipient of its obligations is the past event for recognition of a liability, not a resource.
Scenario 4: Transfer provider fulfills its obligations prior to the transfer recipient fulfilling its obligations.	Yes. Where the transfer recipient has a performance obligation, the resource is the right to have the transfer recipient fulfill its obligations by transferring goods or services to third-party beneficiaries. This satisfies the definition of a resource in the same way that a right to have transferring the goods or services to the transfer provider would in a commercial arrangement. Where the transfer recipient has a present obligation, the resource is the	Yes. The transfer provider controls the resource through the enforceability of the binding arrangement.	Yes. The transfer of resources is the past event giving rise to a resource.

	Transfer Provider has a Resource	Presently Controlled by the Entity	As a Result of Past Events
	right to have the transfer recipient fulfill its obligations. This right provides the transfer provider with service potential, as the right enables the transfer provider to achieve its objectives without necessarily generating net cash inflows		

Clarifying the Scope of the Transfer Expenses Standard (Transfer Expenses)

Question

1. Does the IPSASB agree with staff's recommendations regarding the scope of the proposed IPSAS on Transfer Expenses (based on ED 72, *Transfer Expenses*)?

Recommendations

2. Staff recommend that the IPSASB:
 - (a) Retain the current definition of transfer expenses (**Recommendation 1**);
 - (b) Support the staff recommendations in [Appendix 1](#) and the related amendments to ED 72 in [Appendix 3](#) relating to clarifying the scope of the proposed *Transfer Expenses* IPSAS; and
 - (c) Support the staff recommendations in [Appendix 2](#) and the related amendments to ED 72 in [Appendix 3](#) relating to the proposed amendments to the scope of the proposed *Transfer Expenses* IPSAS.

Background

3. ED 72 sought respondents' views on a range of issues. SMC 1 sought views on the proposed scope of the ED:

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.

Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

4. Respondents have raised two types of issues, as follows:
 - (a) Issues related to the clarity of the scope (and definition of transfer expenses), which respond directly to the question raised in SMC 1; and
 - (b) Disagreements with the proposed scope of ED 72.
5. Both types of issues are discussed below.

Analysis

Clarity of the Scope of ED 72

6. Respondents generally agreed that the definition of transfer expenses was clear (although some respondents questioned the terminology used). Further details of these responses are in [Appendix 1](#). Staff are not proposing any changes to the definition.
7. For those respondents that wanted more clarity, additional guidance was requested to clarify the relationship with other IPSAS, especially IPSAS 19 and IPSAS 42, *Social Benefits*.

Relationship with IPSAS 19

8. Staff agree that ED 72 was unclear. The scope of ED 72 excluded provisions, and collective and individual services, that are within the scope of IPSAS 19. This could give the impression that the proposed Transfer Expenses IPSAS is a residual standard that only applies to transactions not within the scope of other standards. However, IPSAS 19 is also seen as a residual standard with other IPSAS dealing with more specific transactions.
9. Staff note that liabilities recognized in respect of revenue were specifically addressed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. ED 72 also specifically addressed accounting for liabilities arising from transfer expenses. Staff recommends that the drafting is clarified to emphasize this approach, as follows:
 - (a) In the proposed Transfer Expenses IPSAS, remove the scope exclusions relating to IPSAS 19;
 - (b) In IPSAS 19, add a scope exclusion in respect of transfer expenses; and
 - (c) In the proposed Transfer Expenses IPSAS, include additional guidance to distinguish transfer expenses from collective and individual services.
10. The proposed changes to the text of the proposed Transfer Expenses IPSAS to reflect these recommendations are included in [Appendix 3](#).

Onerous Contracts

11. Both ED 70 and ED 71 require entities to account for onerous binding arrangements using IPSAS 19 guidance for onerous contracts.
12. Staff do not consider this approach is appropriate for the proposed Transfer Expenses IPSAS, as all transfer expenses involve an entity transferring resources without directly receiving anything in return. Arguably, any transfer expense could satisfy the definition of an onerous contract in IPSAS 19.
13. The IPSASB has previously considered this issue in IPSAS 11, *Construction Contracts*. IPSAS 11 makes it clear that the requirement to recognize an expected deficit on a contract immediately when it becomes probable that contract costs will exceed total contract revenues applies only to contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to that contract.¹⁴
14. Staff recommend that a similar approach is taken in the proposed Transfer Expenses IPSAS, with the requirements in respect of subsequent measurement addressing those cases where the expected costs exceed the fair value of goods or services transferred to third-party beneficiaries.
15. The proposed changes to the text of the proposed Transfer Expenses IPSAS to reflect these recommendations are included in [Appendix 3](#).

Relationship with IPSAS 42

16. Staff agree that further guidance to distinguish transfer expenses from social benefits would be helpful to users. The proposed changes to the text of the proposed Transfer Expenses IPSAS to reflect these recommendations are included in [Appendix 3](#).

¹⁴ IPSAS 11, Comparison with IAS 11

Relationship with Other IPSAS

17. Staff agree with respondents' proposals to specifically exclude transactions within the scope of IPSAS 32, *Service Concession Arrangements: Grantor* from the scope of the proposed Transfer Expenses IPSAS. Staff also agree with the proposals to exclude transactions with owners from the scope of the proposed Transfer Expenses IPSAS by including such transactions in the list of excluded items (paragraph 5 of ED 72), and to relocate the explanation for this exclusion (paragraph 6 of ED 72) to the Basis for Conclusions.

Other Clarity Issues

18. Staff recommend that the other areas where constituents requested clarification be considered at future meetings. The areas are as follows:

Relationship with ED 70 and ED 71; consistency of definitions and terminology across the proposed Standards	Staff note that the IPSASB has agreed to revisit whether to have a single or two separate revenue Standards towards the end of the project. Staff recommend reviewing the relationship between ED 70, ED 71, and ED 72 at the same time.
Treatment of overheads	While respondents raised these questions as a scope issue, staff consider they relate to the determination of cost (i.e., measurement) and recommend they are addressed when the IPSASB considers recognition and measurement issues at a future meeting.
Services in-kind	Staff consider that the drafting of the scope section is clear. Staff recommend that the measurement of services in-kind is reviewed for clarity as part of the discussion of recognition and measurement, which will be discussed at a later meeting.

Disagreements with the Proposed Scope of ED 72

19. Some respondents disagreed with the proposed scope of ED 72, and suggested areas where the scope should be amended. Further details of these responses can be found in [Appendix 2](#).
20. Some Respondents proposed that the scope should include taxes; or should exclude the subsequent measurement of non-contractual payables. Respondents commented as follows:
 - (a) ED 71 deals with taxes separately from transfers as taxes arise from the exercise of sovereign powers. However, this does not apply to the payment of taxes.
 - (b) Some transfer expenses may include non-recoverable taxes, for example non-recoverable VAT. If tax is excluded from the final IPSAS an entity would need to apply different standards to account for the two components of the transaction.
 - (c) The subsequent measurement of taxes would be covered by the requirements for the subsequent measurement of non-contractual payables, which is inconsistent with the exclusion of taxes from the scope of the proposed Transfer Expenses IPSAS.

21. Staff acknowledge that respondents have raised issues that the IPSASB has not previously considered. However, staff consider that determining when a liability for a tax or levy should be recognized would better fit within IPSAS 19 for the reasons given in [Appendix 2](#).
22. Staff recommend that taxes continue to be excluded from the scope of the Transfer Expenses IPSAS and that the IPSASB consider adding the topic to an improvements or narrow scope amendments project.
23. Regarding comments related to non-contractual payables and taxes, staff propose that the scope of the proposed Transfer Expenses IPSAS remove subsequent measurement of tax payables, and that the amendments to other IPSAS (consequential amendments) include additional Implementation Guidance in IPSAS 41, *Financial Instruments*, in line with the similar guidance on monetary gold. The proposed changes to the text of the proposed Transfer Expenses IPSAS are included in [Appendix 3](#).
24. Some respondents proposed that the scope should include all non-exchange expenses / all expenses (linked to consistency with GFS); other respondents proposed that the scope should exclude all commercial transactions (i.e., transactions that take place at market value).
25. Staff note that, in developing ED 72, the IPSASB had already considered these issues. Consequently, staff do not recommend amending the scope of the proposed Transfer Expenses IPSAS as these respondents proposed.

Decision Required

26. Does the IPSASB agree with the staff recommendations?

Appendix 1 – Respondents’ Comments on the Clarity of the Scope of ED 72

Areas where respondents identified a need to clarify the scope of ED 72 are identified below, along with Staff proposals for addressing these comments.

Issue Raised	Staff Comments	Recommendations
<p>Interaction with other IPSAS, in particular IPSAS 19 and IPSAS 42. Some respondents consider that the boundary between ED 72 and other IPSAS is not clear. Respondents note that this lack of clarity has been highlighted by governments’ recent responses to COVID-19, and that some responses can be interpreted as either supporting individuals and households (potentially within the scope of IPSAS 42) or supporting employers. Further guidance would be helpful.</p> <p>Some respondents also questioned whether the onerous contract provisions in IPSAS 19 could apply to transfer expenses.</p> <p>Some respondents also consider that further guidance on separating transactions that are only partially in the scope of ED 72 is required.</p> <p>Some respondents consider that expenses relating to service concession arrangements should be explicitly excluded from the scope of ED 72.</p> <p>Some respondents considered that transactions with owners should be excluded from the scope of ED 72 by including such transactions in the list of excluded items. These respondents also proposed relocating the explanation of why transactions with owners are not transfer expenses to the Basis for Conclusions.</p>	<p>Staff agree that further guidance on the boundaries between the proposed Transfer Expenses IPSAS and other IPSAS would be beneficial and recommend that this guidance be developed in finalizing the IPSAS on transfer expenses.</p> <p>Staff recommend excluding service concession arrangements from the scope of the proposed Transfer Expenses IPSAS, while considering that in most cases a grantor would receive goods, services or other assets in exchange for the payments made.</p> <p>Staff support respondents’ proposals in respect of transactions with owners.</p>	<p>Recommendation 2</p> <p>Clarify the relationship with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, by:</p> <ul style="list-style-type: none"> (a) Removing the scope exclusions in the proposed Transfer Expenses IPSAS relating to IPSAS 19; (b) Adding a scope exclusion in IPSAS 19 in respect of transfer expenses; and (c) Including additional guidance in the proposed Transfer Expenses IPSAS to distinguish transfer expenses from collective and individual services. <p>Recommendation 3</p> <p>Specify that binding arrangements for transfer expenses are not treated as onerous contracts at inception, with the requirements in respect of subsequent measurement addressing those cases where the expected costs will exceed the fair value of goods or services transferred to third-party beneficiaries.</p> <p>Recommendation 4</p> <p>Include further guidance to distinguish transfer expenses from social benefits.</p>

Issue Raised	Staff Comments	Recommendations
		<p>Recommendation 5</p> <p>Update the list of items excluded from the scope of the proposed IPSAS to include service concession arrangements and transactions with owners.</p> <p>Recommendation 6</p> <p>Relocate the explanation of why transactions with owners are not transfer expenses to the Basis for Conclusions</p>
<p>Definitions and terminology across proposed standards. Some respondents note that definitions and terminology are used inconsistently across ED 70, ED 71 and ED 72, and that this hinders understanding. Respondents specifically highlight the following:</p> <ul style="list-style-type: none"> • ED 72 refers to a transfer provider where ED 70 refers to a purchaser. • ED 72 refers to a transfer recipient for transfer expenses, whether there is a performance obligation or not. While ED 71 also uses this term, ED 70 refers to a supplier. • The term transfer is used as both a technical term (aligning with the terminology in GFS) and generally (mirroring IFRS 15). This is confusing for preparers who are not familiar with GFS. • Capital transfers need to be explained from the provider's perspective. • Referring to transfer expenses with performance obligations is confusing since 	<p>Concerns about the definitions and terminology are pervasive, but are included in this analysis and are not repeated in the analysis of other SMCs.</p> <p>Staff propose to review the definitions and terminology across the proposed Revenue and Transfer Expenses IPSASs.</p> <p>Staff do not propose to change the term 'transfer expenses', but propose the inclusion of a paragraph in the Basis for Conclusion acknowledging the potential confusion.</p>	<p>Recommendation 7</p> <p>Include a paragraph in the Basis for Conclusions addressing respondents' concerns that using the specific term 'transfer expenses' while retaining the general use of the term 'transfers' could be confusing</p>

Issue Raised	Staff Comments	Recommendations
<p>there is no performance obligation between the provider and the beneficiary of the transfer.</p> <ul style="list-style-type: none"> Performance obligations within ED 72 are a subset of performance obligations in ED 70, which may cause confusion. 		
<p>Relationship with ED 70 and ED 71. Some respondents consider that the relationship between ED 72 and EDs 70 and 71 is not clear. Some respondents considered that having two expense standards, mirroring ED 70 and ED 71, would be preferable, although additional guidance may be sufficient.</p>	<p>Similar issues are raised in the responses to ED 70 and ED 71. Staff recommend that the proposed Transfer Expenses IPSAS be reviewed after decisions about the structure of the proposed Revenue IPSASs have been made.</p>	<p>Recommendation 8 Consider other issues identified by respondents in relation to clarifying the scope of the proposed IPSAS at later meetings as the relevant issues are addressed.</p>
<p>Treatment of overheads. Some respondents note that ED 72 does not address the extent to which the transfer provider's overhead expenses should be attributed, i.e., whether such overheads should be within the scope of ED 72.</p>	<p>Staff consider these comments relate to the measurement of a transfer expense, and recommend that they are addressed at future meetings.</p>	
<p>Services in kind. One respondent comments that the recording of services in-kind seems to be optional. The respondent considers that recognition of services in-kind should be mandatory from the provider perspective.</p>	<p>Staff consider that ED 72 required services in-kind to be recognized as transfer expenses. Staff consider that the drafting of the scope section is clear; however, Staff will review the drafting of the measurement paragraphs to ensure the measurement of services in-kind is clear. Staff recommend undertaking this review at later meetings once the IPSASB has further considered recognition and measurement issues.</p>	

Appendix 2 – Respondents’ Comments on Disagreements with the Proposed Scope of ED 72

Areas where respondents disagree with the proposed scope of ED 72 are identified below, along with Staff proposals for addressing these comments.

Issue Raised	Staff Comments	Recommendations
<p>Transfer expenses include taxes. Some respondents consider that the scope of ED 72 should be expanded to include taxation payments. Staff note the following reasons for this recommendation:</p> <ul style="list-style-type: none"> ED 71 deals with taxes separately from transfers as taxes arise from the exercise of sovereign powers. However, this does not apply to the payment of taxes. <p>Some transfer expenses may include non-recoverable taxes, for example non-recoverable VAT. If tax is excluded from the final IPSAS an entity would need to apply different standards to account for the two components of the transaction.</p>	<p>The IPSASB has previously agreed not to include taxes within the scope of the proposed Transfer Expenses IPSAS.</p> <p>Staff acknowledge that respondents have raised issues that the IPSASB has not previously considered.</p> <p>Staff still consider that it is appropriate to exclude taxes from the scope of the proposed Transfer Expenses IPSAS. Determining when a liability for a tax or levy should be recognized would better fit with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p>Staff note that IFRIC 21, <i>Levies</i>, covers the issues respondents have proposed for this IPSAS. IFRIC 21 is an interpretation of IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p>Consequently, staff recommend that taxes are excluded from the scope of the Transfer Expenses IPSAS and that the IPSASB consider adding the topic to an improvements or narrow scope amendments project.</p>	<p>Recommendation 9</p> <p>Do not include taxes within the scope of the proposed <i>Transfer Expenses</i> IPSAS but consider an improvements or narrow scope amendment project to add guidance on tax liabilities to IPSAS 19, based on IFRIC 21, <i>Levies</i>.</p>
<p>Non-contractual payables. Linked to the taxation issue, some respondents note that the subsequent measurement of taxes would be covered by the requirements for the subsequent measurement of non-contractual payables. These respondents consider this to be inconsistent, and recommend that either taxes were included in the final IPSAS or that the provisions on the subsequent measurement of non-contractual payables be removed.</p>	<p>While the IPSASB has previously agreed to include the subsequent measurement of non-contractual payables within the scope of the proposed Transfer Expenses IPSAS, staff consider that respondents have raised valid concerns.</p> <p>Staff consider that these concerns can best be addressed by amending the scope to remove subsequent measurement of non-contractual payables from the scope of the proposed <i>Transfer Expenses</i> IPSAS.</p>	<p>Recommendation 10</p> <p>Amend the scope of the proposed <i>Transfer Expenses</i> IPSAS to remove subsequent measurement of non-contractual payables from the scope of the proposed <i>Transfer Expenses</i> IPSAS.</p>

Issue Raised	Staff Comments	Recommendations
	<p>Staff recommend that additional Implementation Guidance (similar to the guidance on monetary gold) be added to IPSAS 41 to address the subsequent measurement of non-contractual payables.</p>	<p>Recommendation 11 Include additional Implementation Guidance (similar to the guidance on monetary gold) in IPSAS 41 to address subsequent measurement of non-contractual payables.</p>
<p>Scope should include all non-exchange expenses / all expenses. Some respondents consider that the scope should include all non-exchange expenses, citing the example of services provided by public sector entities at subsidized prices, which are outside the scope of ED 72. Other respondents consider that where goods or services are purchased, the nature of any liability and expense does not depend on whether the recipient is the purchaser or a third-party beneficiary. Consequently, these respondents consider that the scope could include all expenses.</p> <p>Some respondents also comment that, if the current scope is retained, preparers should be directed to the guidance on accounting for other non-exchange expenses (or other expenses).</p>	<p>The IPSASB has previously agreed not to include all non-exchange expenses (or all expenses) within the scope of the proposed Transfer Expenses IPSAS.</p> <p>Staff consider that the IPSASB has previously considered the issues raised by respondents.</p> <p>Staff considers that it would be helpful to preparers to include guidance or commentary in the Basis for Conclusions on developing accounting policies for transactions outside the scope of the proposed Transfer Expenses IPSAS, based on the updated Conceptual Framework currently being developed. Staff propose bringing this drafting to a future meeting.</p>	<p>Recommendation 12 Make no further amendments to the scope of the proposed IPSAS.</p>
<p>Alignment with GFS. One respondent supports the proposed scope because of its alignment with GFS, whereas another respondent disagrees with the proposed scope because it does not cover all types of budgetary expenses. This respondent considers that the scope could result in consolidation issues.</p>	<p>Staff consider that the scope of the proposed Transfer Expenses IPSAS is aligned with the definition of a transfer in GFS. Given the range of transactions included in budgets, it is inevitable that these will be spread over a range of IPSAS. The question of expanding the scope to include all non-exchange expenses (or all expenses) is discussed above. No further action is recommended.</p>	

Issue Raised	Staff Comments	Recommendations
<p>Scope should exclude commercial transactions. Other respondents agree that where goods or services are purchased, the nature of any liability and expense does not depend on whether the recipient is the purchaser or a third-party beneficiary. These respondents consider such transactions to be exchange transactions even where the recipient is a third-party beneficiary. In their view, transactions at market prices (a subset of transfer expenses with performance obligations) should be outside the scope of ED 72.</p>	<p>The IPSASB has previously agreed to include transfer expenses with performance obligations within the scope of the proposed Transfer Expenses IPSAS.</p> <p>Staff consider that the IPSASB has previously considered the issues raised by respondents.</p>	

Appendix 3 – Proposed Amendments to Authoritative Text of ED 72

The proposed guidance is presented in the following format for easier review. This guidance is still in draft and is subject to subsequent revisions.

Guidance type			
Section			
Purpose of guidance	Source (existing ED guidance, Board decision, or staff proposal)	[Proposed new or revised guidance for IPSAS [X], <i>Transfer Expenses</i>] [Grey – in cases where guidance remains relatively unchanged from existing source] [Bold - main principles (per Framework preface paragraph 12)]	Related Board discussion (Change ID)

Purpose	Sources	Draft Guidance	Related Board discussion
Core Text			
Scope			
Scope and scope exclusions	ED 72.3	An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for transfer expenses as defined in this [draft] Standard, including transfer expenses incurred for capital transfers. Transactions which result in the entity receiving goods, services or other assets directly in return for the resources the entity transfers to the counterparty do not satisfy the definition of a transfer expense and are outside the scope of this [draft] Standard.	Agenda Item 4.2.3
	ED 72.4; Recommendation 10	An entity shall also apply this [draft] Standard in accounting for the subsequent measurement of other non-contractual payables, except where the subsequent measurement of the payable is within the scope of another Standard. This [draft] Standard does not apply to the recognition and initial measurement of other non-contractual payables.	Agenda Item 4.2.3
	ED 72.5; Recommendation 2 Recommendation 5	This [draft] Standard does not apply to: (a) Operating leases as defined in IPSAS 13, Leases; (b) Provisions as defined in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets; (c) Collective services and individual services as defined in IPSAS 19; Service concession arrangements as defined in IPSAS 32, <i>Service Concession Arrangements: Grantor</i> ; (d) Employee benefits as defined in IPSAS 39, Employee Benefits;	Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
		<p>(e) Concessionary loans as defined in IPSAS 41, Financial Instruments;</p> <p>(f) Social benefits as defined in IPSAS 42, Social Benefits;</p> <p>Contributions from, and distributions to, owners;</p> <p>(g) Insurance contracts (see the international or national accounting standard dealing with insurance contracts); and</p> <p>(h) Share-based payments (see the international or national accounting standard dealing with share-based payments).</p>	
Transactions with owners	ED 72.6; Recommendation 6	<p>Contributions from owners and distributions to owners are defined in IPSAS 1, <i>Presentation of Financial Statements</i>. Contributions from owners and distributions to owners do not meet the definition of a transfer expense, for the following reasons:</p> <p>(a) Contributions from owners establish a controlling entity's or an investor's financial interest in the net assets/equity of the controlled entity or investee. This financial interest is recognized as an asset in the controlling entity's or the investor's separate financial statements, and therefore does not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.</p> <p>(b) Distributions to owners are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment. Distributions to owners are transfers in response to earlier investments by owners, and therefore do not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.</p> <p>Consequently, contributions from owners and distributions to owners are outside the scope of this [draft] Standard. An entity shall account for contributions from owners and distributions to owners in accordance with IPSAS 1.</p>	Agenda Item 4.2.3
Transactions with one or more components within the scope of this proposed IPSAS, and one or more	ED 72.7	<p>A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards.</p> <p>(a) If the other Standards specify how to separate 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 transaction 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 72–85 (transfer expenses with</p>	Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
components within the scope of another IPSAS.		performance obligations) or paragraphs 102–114 (transfer expenses without performance obligations) to account for the amount of the transaction consideration or other transfer of resources that remains (if any). (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 [draft] Standard to separate and/or initially measure the part (or parts) of the binding arrangement. Paragraphs AG4–AG5 provide additional guidance on the scope of this Standard. [STAFF NOTE: Cross references and related wording subject to later IPSASB decisions on the accounting model(s) to be applied to transfer expenses.]	
Definition			
Definition of Transfer Expense	<i>ED 72.8;</i> Recommendation 1	The following terms are used in this [draft] Standard with the meanings specified: ... A transfer expense is an expense arising from a transaction, other than taxes¹⁵, 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 asset¹⁶ in return (paragraphs AG6–AG7 provide additional guidance).	Agenda Item 4.2.3
Recognition and Measurement [location to be determined]			
Provide that a transfer expense is not an onerous contract except where the transfer provider will pay amounts in excess of fair value.	Recommendation 3 – proposed guidance	<i>Recognition of Expected Deficits</i> X1. A binding arrangement may specify that, in exchange for the resources provided by the transfer provider, the transfer recipient will: (a) Transfer goods, services, or other assets of approximately equal value to third-party beneficiaries; or (b) Acquire or construct goods, services, or other assets of approximately equal value for its own use. X2 When paragraph X1 applies, the transfer provider shall recognize as an expense immediately the value of resources transferred or to be transferred in excess of the fair value of the goods, services, or	Agenda Item 4.2.3

¹⁵ Taxes include other compulsory contributions and levies, as defined in [draft] IPSAS [X] (ED 71).

¹⁶ The definition of a transfer expense includes references to “other asset” (for example, a non-current asset) for completeness. Elsewhere in this [draft] Standard, references to goods and services or to goods or services are to be read as incorporating references to assets.

Purpose	Sources	Draft Guidance	Related Board discussion
		<p>other assets to be transferred to third-party beneficiaries; or to be acquired or constructed by the transfer recipient for its own use.</p> <p>X3. Except where paragraph X1 applies, a transfer provider shall not recognize an expected deficit in respect of a transfer expense.</p>	
<p>Remove subsequent accounting for non-contractual payables.</p>	<p><i>ED 72.120</i> Recommendation 10</p>	<p>Subsequent Measurement of Other Non-Contractual Payables Where a transfer provider has recognized a payable arising out of the operation of legislation or regulation that does not meet the definition of a transfer expense in paragraph 8, a transfer provider applies the principles in paragraphs 116–119 to the measurement of that payable after initial recognition, except where the payable is within the scope of another Standard, in which case the transfer provider shall apply the measurement requirements in that Standard.</p>	<p>Agenda Item 4.2.3</p>

Purpose	Sources	Draft Guidance	Related Board discussion
Application Guidance			
Scope			
Definition of Transfer Expense	ED 72.AG4	The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for transfer expenses, where a transfer provider provides a good or service to another entity without directly receiving any good or service in return. The definitions of “binding arrangement”, “performance obligation”, “third-party beneficiary”, “transfer expense”, “transfer provider” and “transfer recipient” in paragraph 8, or in other Standards as explained in paragraph 9, establish the key elements in applying the scope of the [draft] Standard.	Agenda Item 4.2.3
	ED 72.AG5	This [draft] Standard does not address transactions where an entity receives any good or service in return for the good or service that it transfers to another party. Such transactions are accounted for in accordance with other Standards.	Agenda Item 4.2.3
Additional guidance on distinguishing transfer expenses from collective and individual services; and from social benefits.	Recommendation 2 Recommendation 4 - proposed guidance	<p><i>Comparison with Collective and Individual Services</i></p> <p>IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, states that no provision is recognized for collective or individual services before those services are delivered. IPSAS 19 does not address the accounting for the delivery of collective or individual services.</p> <p>Where the delivery of a collective or individual service satisfies the definition of a transfer expense, an entity applies this [draft] Standard in accounting for the delivery of that service. For example, a Health Ministry provides an ambulance service free of charge to its citizens. The Ministry provides this service by entering into binding arrangements with private companies to deliver the service. In accordance with IPSAS 19, no provision is recognized for the promise to the citizens to deliver the ambulance service. The binding arrangements with the private companies require the Ministry to transfer resources to the companies to deliver the service to third party beneficiaries, without directly receiving any good, service, or asset in return. The binding arrangements are transfer expenses and are accounted for in accordance with this [draft] Standard.</p> <p><i>Comparison with Social Benefits</i></p> <p>IPSAS 42, <i>Social Benefits</i>, defines social benefits as “cash transfers provided to:</p> <ul style="list-style-type: none"> (a) Specific individuals and/or households who meet eligibility criteria; (b) Mitigate the effect of social risks; and 	Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
		<p>(c) Address the needs of society as a whole.”</p> <p>Cash payments made to a recipient that is not a specific individual or household will not meet the definition of a social benefit, except where the recipient is acting as an agent for the entity making the cash payment:</p> <p>(a) The recipient may be acting as an agent where it is required to transfer the cash payment to specific individuals or households. For example, a government may establish a furlough scheme to avoid a large number of redundancies occurring as a result of restrictions put in place following a pandemic. Payments made under the furlough scheme are made to employers in respect of employees who would otherwise be made redundant, with a requirement that these payments are passed on to the employees. The employer is acting as an agent of the government, as they have no discretion as to the use of the funds. Consequently, the government accounts for the payments as the principal. The furlough scheme meets the definition of a social benefit, as cash payments are made to specific individuals and/or households who meet eligibility criteria (those who would otherwise have been made redundant); are made to mitigate the effect of a social risk (unemployment); and address the needs of society as a whole. Consequently, the government accounts for the furlough scheme as a social benefit in accordance with IPSAS 42.</p> <p>(b) Alternatively, the recipient may not be acting as an agent for the entity making the cash payment. Taking the example in paragraph (a) above, if the employer has discretion as to how the ash payments are to be used, the employer is acting as a principal. Consequently, the furlough scheme will not satisfy the definition of a social benefit, as the payments are not made to specific individuals or households. The government considers whether the furlough scheme satisfies the definition of a transfer expense (i.e., whether the government makes the cash payments without directly receiving any good, service, or asset in return). If the payments under the furlough scheme meet the definition of transfer expenses, the government applies this [draft] Standard in accounting for the furlough scheme.</p> <p>Cash payments that do not mitigate the effect of social risks do not meet the definition of a social benefit. IPSAS 42 cites the example of payments made in respect of damage caused by an earthquake. Where a scheme for cash payments does not satisfy the definition of a social benefit because the scheme does not mitigate the effect of social risks, an entity considers whether payments under the scheme satisfy the definition of a transfer expense (i.e., whether the entity makes the cash payments without directly receiving</p>	

Purpose	Sources	Draft Guidance	Related Board discussion
		<p>any good, service, or asset in return). If the cash payments meet the definition of transfer expenses, the government applies this [draft] Standard in accounting for the cash payments.</p> <p>IPSAS 42 notes that 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. Where a scheme for cash payments does not satisfy the definition of a social benefit because the scheme does not address society as a whole, an entity considers whether payments under the scheme satisfy the definition of a transfer expense (i.e., whether the entity makes the cash payments without directly receiving any good, service, or asset in return). If the cash payments meet the definition of transfer expenses, the government applies this [draft] Standard in accounting for the cash payments. If the entity directly receives goods, services, or assets (e.g., cash) in return, the entity considers whether the scheme is an insurance scheme. If so, the entity accounts for the scheme in accordance with the international or national Standard dealing with insurance.</p>	
Definitions (Transfer Expense)			
Definition of Transfer Expense	<i>ED 72.AG6</i>	<p>This [draft] Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which an entity (the transfer provider) provides a good or service to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, an individual or another entity) without directly receiving any good or service in return. For the purposes of determining whether the entity has received a good or service, a transfer provider's binding arrangement asset is not considered to be an asset received by the transfer provider. This is because a transfer provider's binding arrangement asset is the right to have a good or service transferred to a third-party beneficiary. This is a temporary asset that will be derecognized as the transfer recipient fulfils its performance obligations.</p> <p>[STAFF NOTE: subject to later IPSASB decisions on the accounting model(s) to be applied to transfer expenses.]</p>	Agenda Item 4.2.3
	<i>ED 72.AG7</i>	<p>In a transaction giving rise to a transfer expense, the transfer provider provides goods or services to a transfer recipient. Consequently, the transfer provider controls the goods or services prior to the transfer and is therefore acting as a principal. The accounting for a transfer expense by a transfer provider is the same whether the transfer provider transacts directly with the transfer recipient, or through an agent. Paragraph AG22 explains that a transfer recipient in a three-party transaction is not an agent, because it gains control of the goods or services transferred by the transfer provider, and are responsible for satisfying the performance</p>	Agenda Item 4.2.3

Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
		obligations specified in the binding arrangement (i.e., for delivering different goods or services to third-party beneficiaries). [STAFF NOTE: subject to later IPSASB decisions on the accounting model(s) to be applied to transfer expenses.]	

Purpose	Sources	Draft Guidance	Related Board discussion
Amendments to Other Standards			
Amendments to IPSAS 19, <i>Provisions Contingent Liabilities and Contingent Assets</i>			
Scope exclusions (IPSAS 19)	IPSAS 19.1; Recommendation 2	<p>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:</p> <ul style="list-style-type: none"> (a) Social benefits within the scope of IPSAS 42; (b) [Deleted] (c) Those resulting from executory contracts, other than where the contract is onerous, subject to other provisions of this paragraph; (d) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts; (e) Those covered by another IPSAS; (f) Those arising in relation to income taxes or income tax equivalents; and (g) Those arising from employee benefits, except employee termination benefits that arise as a result of a restructuring, as dealt with in this Standard; and (h) Those arising from transfer expenses with the scope of [draft] IPSAS [X] (ED 72). 	Agenda Item 4.2.3
Amendments to IPSAS 41, <i>Financial Instruments</i>			
Add guidance on non-contractual payables in IPSAS 41	Recommendation 11 - proposed guidance	<p>B.1.3 Non-Contractual Payables</p> <p>B.1.3.1 Definition of a financial Instrument: Non-Contractual Payables</p> <p>Is a non-contractual payable, such as a payable in respect of a tax, a financial instrument?</p> <p>No. Non-contractual payables such as a payable in respect of a tax, do not arise from contracts and therefore do not satisfy the definition of a financial instrument. Non-contractual payables that arise from a transfer expense are initially recognized and measured in accordance with [draft] IPSAS [X] (ED 72), <i>Transfer Expenses</i>. However, where non-contractual payables will be settled in cash, they share several characteristics with financial liabilities and applying the principles in IPSAS 41 to their subsequent measurement is generally appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3. This treatment will also be consistent with the requirements for the subsequent measurement of transfer expense liabilities that meet the definition of a financial liability (see [draft] IPSAS [X] (ED 72)).</p>	Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
Basis for Conclusions			
Scope			
Scope of proposed Transfer Expenses IPSAS	ED 72.BC4	<p>Prior to [Draft] IPSAS [X] (ED 72) being issued, non-exchange transactions were defined in IPSAS 9, <i>Revenue from Exchange Transactions</i>, as follows:</p> <p><i>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.</i></p>	Agenda Item 4.2.3
	ED 72.BC5	<p>This definition covered a wide range of transactions, including some that were addressed in other Standards. As an example, expenses associated with concessionary loans are addressed in IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i>, and its successor Standard, IPSAS 41, <i>Financial Instruments</i>. It followed that a future Standard addressing non-exchange expenses would need to clearly set out which transactions would be within its scope and which transactions would be outside its scope.</p>	Agenda Item 4.2.3
	ED 72.BC6	<p>The IPSASB issued its Consultation Paper (CP), <i>Accounting for Revenue and Non-Exchange Expenses</i>, in August 2017. The CP discussed various types of non-exchange expenses, including collective services, universally accessible services, and grants, contributions and other transfers, but did not discuss the scope of non-exchange expenses any further.</p>	Agenda Item 4.2.3
	ED 72.BC7	<p>The CP did not discuss social benefits, which were being addressed in a separate project. Collective services and universally accessible services are now referred to as collective and individual services, and have been addressed in a separate project. As noted above, the IPSASB has issued final pronouncements addressing these transactions.</p>	Agenda Item 4.2.3
	ED 72.BC8	<p>In developing [draft] IPSAS [X] (ED 72), the IPSASB considered the scope of the [draft] Standard, and came to the following conclusions:</p> <p>(a) The IPSASB noted that respondents to the CP had identified practical difficulties with distinguishing between exchange transactions and non-exchange transactions. The IPSASB also noted that, in part because of these difficulties, the <i>Revenue</i> project that the IPSASB was undertaking simultaneously with its non-exchange project was proposing a distinction between transactions based on the presence (or absence) of a performance obligation. This distinction would largely replace the current exchange transaction/non-exchange transaction distinction. The IPSASB considered that it would be appropriate to apply this distinction to expenses as well as revenue. Requiring an entity to determine</p>	Agenda Item 4.2.3

Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
		<p>whether a transaction was an exchange transaction or a non-exchange transaction, prior to determining whether a transaction had performance obligation would introduce a level of complexity that was unwarranted. For these reasons, the IPSASB agreed that the scope of [draft] IPSAS [X] (ED 72) should not be based on the definition of a non-exchange expense.</p> <p>(b) A ‘residual expenses’ Standard, addressing any expenses not covered in another Standard, was rejected as this would exceed the IPSASB’s intentions when issuing the CP. The IPSASB also considered that including exchange transactions might raise additional issues that would require additional time and resources to resolve, but which were not seen as a priority by the IPSASB’s stakeholders.</p> <p>(c) The IPSASB noted that the main group of transactions discussed in the CP and not addressed by the IPSASB’s other Standards or active projects was grants, contributions and other transfers. The IPSASB noted that this group of transactions was covered by the definition of ‘transfers’ in the statistical reporting frameworks (this definition is discussed further in paragraphs BC11–BC12). Aligning the scope of [draft] IPSAS [X] (ED 72) with the definition of ‘transfers’ in the statistical reporting frameworks would be consistent with the IPSASB’s Policy Paper, <i>Process for Considering GFS Reporting Guidelines during Development of IPSASs</i>. Consequently, the IPSASB agreed to align the scope of [draft] IPSAS [X] (ED 72) with the definition of ‘transfers’ in the statistical reporting frameworks.</p>	
	ED 72.BC9	Having agreed to base the scope of [draft] IPSAS [X] (ED 72) with the definition of ‘transfers’ in the statistical reporting frameworks, the IPSASB specifically considered research grants. The IPSASB noted that where the grantee retained the intellectual property resulting from the research, such grants would be covered by the definition of transfers. Where the intellectual property passed to the grantor, such grants would not be covered by the definition of transfers. The IPSASB noted that this was consistent with the approach taken in the statistical reporting frameworks. Consequently, the IPSASB agreed that no specific requirements in respect of research grants were required.	Agenda Item 4.2.3
	ED 72.BC10	The IPSASB also noted that contributions from owners and distributions to owners did not meet the definition of transfers, and were consequently outside the scope of [draft] IPSAS [X] (ED 72). This is explained further in paragraph 6 of [draft] IPSAS [X] (ED 72).	Agenda Item 4.2.3

Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
	<p>ED 72.6; Recommendation 6</p>	<p>Contributions from owners and distributions to owners are defined in IPSAS 1, <i>Presentation of Financial Statements</i>. Contributions from owners and distributions to owners do not meet the definition of a transfer expense, for the following reasons.</p> <p>(a) Contributions from owners establish a controlling entity’s or an investor’s financial interest in the net assets/equity of the controlled entity or investee. This financial interest is recognized as an asset in the controlling entity’s or the investor’s separate financial statements, and therefore does not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.</p> <p>(b) Distributions to owners are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment. Distributions to owners are transfers in response to earlier investments by owners, and therefore do not satisfy the definition of a transfer expense, which requires that the transfer provider provides a good or service to another entity without directly receiving any good or service in return.</p> <p>Consequently, contributions from owners and distributions to owners are outside the scope of this [draft] Standard. An entity shall account for contributions from owners and distributions to owners in accordance with IPSAS 1</p>	<p>Agenda Item 4.2.3</p>
Definition			
<p>Definition of Transfer Expense</p>	<p>ED 72.BC11</p>	<p>The <i>Government Finance Statistics Manual 2014</i> (GFSM 2014) defines a transfer as follows: <i>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.</i></p>	<p>Agenda Item 4.2.3</p>
	<p>ED 72.BC12</p>	<p>The IPSASB noted that this definition does not cover all non-exchange transactions as defined in IPSAS 9 (see the definition in paragraph BC4 above). Specifically, the definition does not cover transactions where one party provides a good or service to another party, and receives a good or service in return, but that good or service is not of approximately equal value. The IPSASB noted that determining what amounted to approximately equal value was one of the difficulties stakeholders had experienced with the definition of non-exchange expenses. Consequently, the IPSASB considered that clarity of the GFSM 2014 definition of transfers outweighed the disadvantages of excluding a small number of non-exchange expenses from the scope of [draft] IPSAS [X] (ED 72).</p>	<p>Agenda Item 4.2.3</p>

Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
	ED 72.BC13	<p>Having agreed to use the GFSM 2014 definition of transfers as the basis for the scope of [draft] IPSAS [X] (ED 72), the IPSASB agreed to base its definition of ‘transfer expenses’ on the GFSM definition. The IPSASB agreed to adopt the term transfer expenses as the term transfers had previously been used in IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>, where the term transfers referred to inflows (i.e., revenue) only. In IPSAS 23, the term transfers excludes taxes, and the IPSASB agreed to exclude taxes from the definition of transfer expenses for consistency.</p> <p>[STAFF NOTE: Could refer to taxes being covered in a separate project or improvement project if the IPSASB agrees with Recommendation 9.]</p>	Agenda Item 4.2.3
	Recommendation 7	<p>Some respondents to ED 72, <i>Transfer Expenses</i>, commented that the use of the term ‘transfer expenses’ as a specific term could cause confusion with the use of the term ‘transfers’ generically. The IPSASB acknowledged this concern, but recognized that alternative terms suggested by respondents (such as ‘grants’) could also cause confusion where these terms had a different specific meaning in GFSM. The IPSASB agreed to retain the term ‘transfer expenses’ as other suggested terms could also cause confusion, and retaining the term would provide continuity from ED 72. Users might speculate whether a change in term signified a change in the scope of the [draft] IPSAS.</p>	Agenda Item 4.2.3
Relationship with proposed Revenue IPSAS(s)	ED 72.BC14	<p>[Draft] IPSAS [X] (ED 72) complements [draft] IPSAS [X] (ED 70), <i>Revenue with Performance Obligations</i>, and [draft] IPSAS [X] (ED 71), <i>Revenue without Performance Obligations</i>. Consequently, [draft] IPSAS [X] (ED 72) relies on the definitions in those [draft] Standards where possible (see paragraph 9 of [draft] IPSAS [X] (ED 72)). 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 [draft] IPSAS [X] (ED 72):</p> <ul style="list-style-type: none"> (a) Stand-alone purchase price; (b) Transaction consideration; (c) Transfer provider’s binding arrangement asset; and (d) Transfer provider’s binding arrangement liability. <p>These definitions are based on the definitions of stand-alone price, transaction price, binding arrangement liability and binding arrangement asset in [draft] IPSAS [X] (ED 70).</p>	Agenda Item 4.2.3

Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
		[STAFF NOTE: subject to later IPSASB decisions on the accounting model(s) to be applied to transfer expenses.]	
	ED 72.BC15	The IPSASB also considered the definition of expenses in IPSAS 1, <i>Presentation of Financial Statements</i> , and concluded that no changes were required. The IPSASB agreed to include a cross-reference to this definition in [draft] IPSAS [X] (ED 72) (see paragraph 9 of [draft] IPSAS [X] (ED 72)).	Agenda Item 4.2.3
Recognition and Measurement [location to be determined]			
Provide that a transfer expense is not an onerous contract except where the transfer provider will pay amounts in excess of fair value.	Recommendation 3 - proposed Basis of Conclusions in respect of onerous contracts	<p><i>Expected Deficits</i></p> <p>The IPSASB considered whether the onerous contract provisions in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> were applicable to transfer expenses. The IPSASB noted that, as the transfer provider does not directly receive any good, service, or other asset in exchange for transferring resources to the transfer provider, it can be argued that any transfer expense could be considered to be an onerous contract.</p> <p>The IPSASB has previously considered similar situations in IPSAS 11, <i>Construction Contracts</i>. In this Standard, the IPSASB concluded that an excess deficit should only be recognized when the construction contract was initially intended to at least recover all costs; planned subsidies were not considered onerous.</p> <p>The IPSASB agreed to adopt a similar approach to transfer expenses. Some transfer expenses are intended to cover the commercial cost of providing goods, services or other assets, either to third-party beneficiaries or for the transfer recipients' own use. If the circumstances of these transfer expenses change so that the value of the resources transferred (or to be transferred) by the transfer provider exceeds the fair value of the goods, services or other assets to be provided to third-party beneficiaries or acquired or constructed for the transfer recipients' own use, any expected deficit should be recognized as an expense, as the binding arrangement, initially intended to cover commercial costs, would have become onerous. In other cases, where there is no commercial basis for the transfer expense, no expected deficit is to be recognized. As with IPSAS 11, planned subsidies or grants are not considered to be onerous.</p>	Agenda Item 4.2.3
Rationale for the removal of the subsequent measurement of	ED 72.BC67 ; Recommendation 10	In developing the guidance on subsequent measurement, the IPSASB initially agreed to extend the application of this guidance to payables arising out of the operation of legislation or regulation that do not meet the definition of a transfer expense. Most payables arising out of the operation of legislation or regulation will be within the scope of [draft] IPSAS [X] (ED 72). However, the IPSASB considered it important	Agenda Item 4.2.3

Purpose	Sources	Draft Guidance	Related Board discussion
non-contractual payables		<p>to ensure that appropriate guidance on subsequent measurement was available for all such payables. Because payables arising out of the operation of legislation or regulation do not arise from binding arrangements, they are outside the scope of IPSAS 41, and subsequent measurement of such payables is not addressed in other Standards; for example, IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, only addresses the subsequent measurement of provisions, not payables.</p>	
	<p>Recommendation 10 – proposed <i>Basis for Conclusions</i></p>	<p>Respondents to ED 72 questioned this approach, noting that most non-contractual payables outside the scope of ED 72 would relate to tax liabilities. ED 72 specifically excluded taxes from the definition of a transfer expense. Respondents considered that excluding taxes from the scope of the proposed IPSAS while requiring the proposed IPSAS to be applied to their subsequent measurement could be confusing for users. The IPSASB accepted these comments, and agreed to provide guidance on the subsequent measurement of non-contractual payables that are outside the scope of [draft] IPSAS [X] (ED 72) in IPSAS 41, which already contains Implementation Guidance on items (such as monetary gold) that do not meet the definition of a financial instrument but share characteristics with them.</p>	<p>Agenda Item 4.2.3</p>

Distinguishing Transfer Expenses with and without Performance Obligations (Transfer Expenses)

Question

1. Does the IPSASB agree with removing the distinction and revising the proposed accounting?

Recommendations

2. Staff recommend:
 - (a) Removing the distinction between transfer expenses with performance obligations and transfer expenses without performance obligations previously proposed in ED 72, *Transfer Expenses* as it is not useful from a transfer provider perspective; and
 - (b) Revising proposed guidance and reconsidering the proposed accounting models to better capture the nature and substance of the transaction for a transfer provider.

Background

3. In April 2021, the IPSASB considered a summary of principle-related issues raised by constituents in response to ED 72 ([Agenda Item 1](#)). One significant issue relates to the distinction between transfer expenses with performance obligations and without performance obligations. ED 72 required a transfer provider (i.e., the entity applying the proposed standard) to identify present obligations and performance obligations from the transfer recipient's perspective. Distinguishing the types of transfer expenses resulted in different accounting. This paper summarizes the accounting in ED 72 and constituent comments, and incorporates CAG member advice on how to begin addressing the issue.

Analysis

4. ED 72 required the transfer provider to account for a transfer expense transaction using one of two accounting models. The appropriate model depended on (1) whether the transaction arises from a binding arrangement and (2) if the counterparty (i.e., transfer recipient) has a performance obligation. Thus, the transfer provider's assessment using the transfer recipient's perspective is an integral step.

Type of transfer expense	Applicable model	Summary of proposed accounting
Without a binding arrangement	Other model (specifically paragraphs 90, 93)	A transfer expense <u>without</u> performance obligation(s) is recognized at the earlier of when the transfer provider has an obligation to transfer resources, and when the transfer provider transfers the resources.
With a binding arrangement, where the transfer recipient has present obligation(s) (that is/are not performance obligation(s))	Other model (paragraphs 90-119)	
With a binding arrangement, where the transfer recipient has performance obligation(s)	Public Sector Performance Obligation Approach (PSPOA) model (paragraphs 10-89)	A transfer expense <u>with</u> performance obligation(s) (i.e., transfers arising from a transaction with a binding arrangement, which has performance obligations) is recognized when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary.

Considering Constituent Comments

5. While 59% of respondents agreed with the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations,¹⁷ approximately 25% of respondents disagreed. Their comments highlighted a potential conceptual flaw in the proposed accounting of transactions with binding obligations (see detail in [Appendix 1](#)):

Reason for Disagreement	Detail
No economic difference from a transfer provider perspective	The distinction is irrelevant or artificial for the transfer provider, and the difference in accounting is unwarranted.
Not reflective of a transfer provider’s public sector transactions	The distinction and proposed accounting in ED 72 was not considered to faithfully reflect the economic reality of transactions from binding arrangements without performance obligations (i.e., with present obligations). For example, the requirement for the transfer provider to immediately recognize a transfer of resources as an expense, even if it still retains control of the transferred resources was not representative of the substance of the transaction.
Application of potentially inconsistent accounting principles by transfer provider	Some constituents acknowledge that ‘mirroring’ the distinction in revenue was sensible, but did not achieve consistency in accounting principles for equivalent transactions, and the artificial distinction may result in inconsistency in application.
Difficulty in practice without substantial benefits for transfer provider	Application of the proposed guidance is complex, administratively burdensome, and ‘over-complicated’. Costs of application were not considered to justify the benefits.

6. There is a ‘trickle impact’ found in constituent responses to other components of the proposed accounting in ED 72. Concerns on the distinction between transfer expenses with and without performance obligations reasonably overlap with concerns regarding the ability to monitor the satisfaction of a transfer recipient’s performance obligations, recognition and measurement, and the overall practicality of the PSPOA model. Constituents that disagreed with the proposed distinction also disagreed with recognition proposals to:
- (a) Defer recognition of an expense where the transfer recipient has a performance obligation; but
 - (b) Recognize an expense immediately where the transfer recipient does not have a performance obligation (irrespective of whether the transfer recipient has a present obligation).

Considering the Transfer Provider’s Perspective

7. Staff are of the view that constituent concerns are triggered by one element underpinning the guidance in ED 72: the transfer provider (i.e., the entity applying the proposed standard) was **required to consider the transaction from the transfer recipient’s perspective, rather than from the transfer provider’s (entity’s) own perspective.**
8. Staff presented this issue to the CAG in June 2021, and proposed to change the perspective used when evaluating the transaction and revising the proposed accounting accordingly ([Agenda Item 4.2](#)). CAG members unanimously supported staff’s identified root cause and proposal to change the perspective, as it would be more appropriate to require the transfer provider to consider the

¹⁷ See summary of responses to Specific Matters for Comment in December 2020, [Agenda Item 8.3.3](#).

transaction from its own perspective when accounting for its transfer expense transactions. Some CAG members advised the IPSASB to consider the change in perspective as a starting point to address comments received on various aspects of ED 72. Some CAG members also advised the Board to be deliberate when making decisions on consistency in principles and to continue actively considering the future user of the guidance when developing the IPSAS. See [Appendix 1](#) for a summary of CAG member advice.

Rethinking a Binding Arrangement Transaction from the Transfer Provider's Perspective

9. Each party in a binding arrangement has both enforceable right(s) and obligation(s)¹⁸. Staff considered a transaction with a binding arrangement from a transfer provider's perspective, and whether the distinction between present obligations and performance obligations would be useful for the transfer provider (detailed in [Appendix 2](#)). Staff concluded:
 - (a) **Distinction is not useful for its right(s)** – The transfer provider's right is directly linked to the transfer recipient's obligation in a binding arrangement.¹⁹ While the distinction is useful for the transfer recipient (as a unit of account to recognize and measure revenue), the distinction is not equally useful for the transfer provider (to recognize and measure transfer expenses). From the transfer provider's perspective, the existence of its right is dependent on whether it is still able to compel the transfer recipient to fulfill its obligations or impose consequences if they do not (i.e., enforceability). Since this right may give rise to an asset, the transfer provider should account for the transaction based on whether it can still uphold its right in the binding arrangement and retains control over any resources already transferred.
 - (b) **Distinction not applicable for its obligation(s)** – The transfer provider's obligation in a binding arrangement is a present obligation that requires the transfer provider to transfer promised resources to the transfer recipient.
10. Based on this analysis of the transaction from the transfer provider perspective, staff propose eliminating the distinction between transfer expenses with and without performance obligations from transfer expenses accounting guidance. Removing this distinction will overall result in a clearer, more concise IPSAS that more appropriately captures the nature of transfer expenses transactions from the transfer provider perspective.
11. Staff propose to:
 - (a) Revise proposed guidance to enable a transfer provider to better reflect the nature and substance of its transfer expenses transaction and provide useful and relevant information to the users of its financial statements; and
 - (b) Propose a single accounting model for transfer expense transactions with a binding arrangement in December 2021.

Decision Required

12. Does the IPSASB agree with the staff recommendations?

¹⁸ The definition and principles associated with a binding arrangement were confirmed during the IPSASB's March and June 2021 meetings. Each party's rights and obligations in a binding arrangement are enforceable through legal or equivalent means. Enforceability provides the party with the ability to impose consequences on the other parties that do not fulfill their obligations in the binding arrangement.

¹⁹ See analysis in June 2021 [Agenda Item 6.2.3](#), and the above [Agenda Item 4.2.2](#).

Appendix 1 – Constituent Feedback and CAG Member Advice

Summary of Constituent Feedback

1. A small majority (59%) agreed with the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. This support was generally on the basis of ‘mirroring’ the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*.
2. Approximately 25% of respondents disagreed with the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. Staff considered all comment letters noted the following reasons:

Issue	Implication for Transfer Provider
No economic difference from a transfer provider perspective	Some respondents considered the distinction irrelevant or artificial, as that there is no economic difference between the two types of transactions from the transfer provider perspective. One respondent further noted that the differentiation between delivery of distinct goods or services by the transfer recipient (i.e., performance obligation) and the use of transferred resources in a particular way (i.e., present obligation) is not relevant. The distinction is thus not considered relevant for the transfer provider. Rather, the accounting guidance should assist the transfer provider in determining (1) whether it still has an unsatisfied obligation, and (2) whether they still retain control of an asset in cases where they’ve already begun satisfying the obligation.
Not reflective of a transfer provider’s public sector transactions	Some respondents have concerns about distinguishing transfer expenses with performance obligations from those without performance obligations, arguing that the distinction and current proposed treatment of transactions without performance obligations (specifically, transactions from binding arrangements without performance obligations (i.e., with present obligations)) does not reflect the economic reality of these transfer expenses in the public sector. In cases where a transfer provider transfers resources in a transaction without performance obligations but still retains control of those resources, the guidance proposed in ED 72 would require immediate recognition as an expense, which would not appropriately reflect the transaction. Thus, the distinction (which leads to separate accounting requirements of transfer expenses with and without performance obligations) may not faithfully represent the substance of the underlying transaction for the transfer provider.
Application of potentially inconsistent accounting principles by transfer provider	Respondents that did not agree with the distinction generally acknowledged that ‘mirroring’ the distinction from the proposed revenue standards (ED 70 and ED 71) is sensible, but noted that mirrored or symmetrical accounting models did not necessarily achieve consistency in accounting principles for equivalent transactions. These respondents generally did not believe that different accounting was warranted and emphasized that the potentially artificial, yet precise, distinction becomes critical to the correct application of accounting guidance. The transfer expenses guidance as currently proposed in ED 72 may result the application of inconsistent principles by the transfer provider.
Difficulty in practice without substantial benefits for transfer provider	Several respondents noted that the distinction between the two types of transfer expenses is complex, and difficult to accomplish in practice. Respondents noted that there is additional administrative burden and ‘over-complication’ of what should be a simple accounting treatment, without providing useful or relevant information. In essence, the costs of the proposed accounting are not justified by the benefits. A few respondents also noted that this complexity and difficulty in practice exists from both the accounting and budgeting perspectives. Thus, respondents that disagreed with the proposal noted that the difficulty in applying the guidance in practice would impose complexity and costs on the transfer provider that are not justified by the benefits.

Summary of CAG Member Advice

3. CAG members unanimously supported staff's identified root cause and proposal to change the perspective used when evaluating the transaction, and provided advice for the IPSASB to consider:
 - (a) **Consider who will apply the proposed standard** – Some CAG members noted that the proposed accounting guidance should be helpful, feasible, and practical for the entity applying the proposed standard (i.e., the transfer provider). Thus, it would be more appropriate for proposed guidance to require the transfer provider to consider the transaction from its own perspective.
 - (b) **Change in perspective is a starting point to addressing comments received on various aspects of ED 72** – Some CAG members emphasized that the change to the transfer provider's perspective is a starting point in addressing the comments received on various aspects of the overall accounting in ED 72. Some CAG members noted that constituent comments and this change in perspective may indicate that the distinction between performance and present obligations is not necessary for transfer expense accounting, and that it may be more appropriate to focus on the element of control.
 - (c) **Be deliberate when making decisions on consistency in principles between the revised Revenue and Transfer Expenses guidance** – Some CAG members continue to encourage conceptual consistency between the two projects (for example, that enforceability of binding arrangements is equally fundamental for both). These members emphasized the importance of not 'blindly mirroring,' but rather, being deliberate in any decisions on consistency in principles or accounting model.
 - (d) **Continue considering feasibility and practical implications of proposed guidance** – Some CAG members encouraged the IPSASB to consider feasibility and implications of proposed guidance, such as on implementation and consolidation, and whether a separate PSPOA model (if retained) for a subset of transactions in the public sector is sensible.

Appendix 2 – Detailed Analysis: Transfer Provider’s Rights and Obligations in Binding Arrangement

1. Staff considered a transfer expense transaction with a binding arrangement from a transfer provider’s perspective, and whether distinguishing between present obligations and performance obligations would be useful for the transfer provider.
 - (a) A **transfer provider’s right** is directly linked to a transfer recipient’s obligation in a binding arrangement. The transfer provider has a right to enforce the terms of the arrangement and compel the transfer recipient to fulfill its obligation in exchange for the consideration provided, or face consequences if not fulfilled.²⁰
 - (i) The transfer recipient (who would apply revenue guidance to account for this transaction) has at least one present obligation, and that present obligation may be a performance obligation. As discussed in March 2021, the distinction of present obligation or performance obligation is useful for the transfer recipient as these units of account are mechanisms for the recognition and measurement of revenue.
 - (b) Similarly, a **transfer provider’s obligation** is linked to a transfer recipient’s right in a binding arrangement. The transfer provider has at least one present obligation, and the transfer recipient has the right to enforce the terms of the binding arrangement and compel the transfer provider to fulfill this obligation (or face consequences if not fulfilled).
2. Staff present two scenarios below to assess whether the distinction is useful in reflecting the nature of a transfer provider’s right(s) or obligation(s). This assessment will also inform the decision on the appropriate accounting principles for transfer expense accounting (to be presented in a future agenda paper). Consistent with June 2021 [Agenda Item 6.2.3](#), these scenarios are in the context of revenue arising from a transaction a binding arrangement with only two parties, for simplicity.

²⁰ See analysis in June 2021 [Agenda Item 6.2.3](#), and the above Agenda Item [Agenda Item 4.2.2](#).

Component	Scenario 1 <i>Transfer provider fulfills its obligation first</i>	Scenario 2 <i>Transfer recipient fulfills its obligation first</i>	Is the distinction useful?
Transfer provider's right	<p>As presented in Agenda Item 4.2.2, the transfer provider's right to have the transfer recipient fulfill its obligations (or face consequences) meets the definition of an asset when it has already transferred resources to the transfer recipient.</p> <p>The transfer provider benefits from information on whether it still has control (thereby determining whether the right still qualifies as for asset recognition). The existence of control over any resources already transferred to the transfer recipient is independent from whether the right is associated with a present obligation or with a performance obligation for the transfer recipient.</p>	<p>As presented in Agenda Item 4.2.2, the transfer provider's right is extinguished by the transfer recipient's fulfillment of its obligation. A distinction would not be necessary.</p>	<p>Not useful for transfer provider.</p> <p>The transfer provider's right may give rise to an asset. The key attribute for the nature and existence of this asset is whether the transfer provider can still uphold its right in the binding arrangement (i.e., has control over any resources already transferred).</p>
Transfer provider's obligation	<p>As previously discussed, the transfer provider has at least one present obligation in a binding arrangement. This present obligation requires the transfer provider to transfer promised resources to the transfer recipient. Resources transferred represents consideration paid to the transfer recipient to complete its obligations (and thereby fulfilling the transfer provider's right).</p>	<p>See analysis under Scenario 1. The transfer provider has a present obligation in a binding arrangement is always a present obligation.</p> <p>The present obligation may give rise to a liability (transfer expenses payable) if the transfer recipient fulfills its obligation first. The transfer provider will need to assess whether it meets the definition of a liability.</p>	<p>Not applicable for transfer provider.</p> <p>The transfer provider's obligation is a present obligation, which may give rise to a liability. The key attribute for the nature and existence of such a liability is whether the transfer provider is still required to transfer resources as a result of past events (i.e., the transfer recipient fulfilling its obligation).</p>

Considering the Purpose and Benefits of the Drafting Group

Question

1. Does the IPSASB agree with staff's recommendation?

Recommendation

2. Staff recommend the IPSASB delegate the detailed review of guidance in the draft pronouncements, based on Board decisions for the Revenue and Transfer Expenses projects, to the Drafting Group.

Background

3. The IPSASB began discussing responses to the Exposure Drafts (EDs) in March 2021 and have made several decisions on principle-related issues to address constituent concerns. The Board also instructed staff to consider whether there is a need for a 'Task Force' to assist with the finalization of the pronouncements. Staff consider the need, role, and composition of a potential 'Task Force', and have proposed a project management approach below.

Analysis

4. Both the Revenue and Transfer Expenses projects are in pronouncement development stage. As such, the role of any 'Task Force' at this stage would differ from its role leading up to a Consultation Paper or Exposure Draft issuance. As noted in [March 2021](#), the use of a select group of members can best support the IPSASB's by supporting staff in the implementation and execution of Board decisions. As such, staff and the IPSASB Chair have established a formal Drafting Group for the current stage of both projects.
5. The purpose of this Drafting Group is to:
 - (a) Support staff in actioning and incorporating Board decisions into the drafting of the proposed pronouncements; and
 - (b) Perform detailed reviews of drafting to confirm that IPSASB decisions are appropriately reflected.
6. The Drafting Group will not reopen decisions made by the IPSASB subsequent to the EDs, or decisions made leading up to the ED issuances which were supported by constituents. If needed, any significant issues flagged during the drafting related to a decision will be referred to the IPSASB.
7. The establishment of the Drafting Group allows the IPSASB to:
 - (a) Focus Board sessions on principle-related issues;
 - (b) Ensure that:
 - (i) Past IPSASB decisions are appropriately reflected; and
 - (ii) There is consistency in principles and drafting, where appropriate, across the final standards; and
 - (c) Discuss any issues identified as part of the drafting review process on an as-needed basis (i.e., the Drafting Group will identify, and staff will present, any key drafting issues which require IPSASB input).

8. The Drafting Group is composed of four IPSASB members, to help ensure that Board decisions are clearly and consistently incorporated into the final pronouncements:
 - (a) Todd Beardsworth;
 - (b) Lynn Pamment;
 - (c) Patricia Siqueira Varela; and
 - (d) Marc Wermuth.
9. Overall, the delegation of this detailed drafting review to the Drafting Group provides support to the IPSASB in finalizing the pronouncements and effectively using Board plenary time, which is currently more limited because of virtual meetings.
10. The work of the Drafting Group is appropriate and in accordance with due process; the IPSASB will still review any significant drafting items, and review and vote to approve the final IPSAS.

Decision Required

11. Does the IPSASB agree with the staff recommendation?

Draft IPSAS based on the Exposure Drafts (EDs)

Purpose

1. To provide background on staff's process in creating the draft IPSAS based on ED 71 and ED 72, and reflecting IPSASB decisions to date to address constituent comments. This paper also provides staff's rationale in reordering guidance to require users to first identify whether a transaction arises from a binding arrangement.

Background

2. There has been significant progress reviewing responses to the Revenue and Transfer Expense EDs and discussing key principle-related issues. Specifically:
 - (a) *Revenue*: The IPSASB made key decisions on principle-related issues during its [March 2021](#) and [June 2021](#) meetings. These decisions emphasized the prevalence of revenue transactions in the public sector, and the need to clearly communicate the scope and key accounting principles associated with revenue accounting. The IPSASB decided to continue to present revenue guidance as two separate standards,²¹ and that the concept of a binding arrangement remains fundamental for revenue accounting.
 - (b) *Transfer Expenses*: During its [April 2021](#) meeting, the IPSASB considered the decisions made on principle-related issues in the Revenue project and agreed that the concept of a binding arrangement is equally fundamental for transfer expense accounting.
3. Some IPSASB CAG members also provided related advice during the [December 2020](#) and [June 2021](#) CAG meetings. Members encouraged the IPSASB to consider the public sector perspective, including prevalent types of public sector transactions, and user needs in revising the presentation and order of accounting guidance. Some CAG members also advised the IPSASB to consider introductory guidance to help improve the usability and understandability of the final IPSAS.
4. Overall, the IPSASB discussions and CAG member advice in response to constituent comments support the need to better communicate how the proposed standards will be used to account for public sector transactions. This agenda paper summarizes staff's approach to meet this need, developing conceptual consistent draft IPSAS that reflects key decisions on principles.

Analysis

Draft IPSAS (based on ED 71 and ED 72)

5. In March 2021, the IPSASB decided to present revenue guidance with the standard based on ED 71 first. The IPSAS (based on ED 71) is expected to be applicable to the majority of public sector revenues (highlighted in March 2021 [Agenda Item 5.2.2](#)), and comprises revenues arising from transactions (1) without binding arrangements, and (2) with binding arrangements that have present obligations (that are not performance obligations).
6. Transfer expense transactions also may arise (1) without binding arrangements or (2) with binding arrangements. For conceptual consistency, staff drafted the Transfer Expenses IPSAS (based on ED 72) concurrently.

²¹ In March 2021, the IPSASB decided, for the time being, to continue to present revenue guidance as two separate standards with the standard based on ED 71 first (i.e., Option 1).

Intention and Content of the Draft IPSAS

7. The two preliminary draft IPSAS is intended to:

- (a) **Present the overall structure** – Differences between the structure and order of guidance in the EDs and the draft IPSAS are intended to better communicate accounting principles or better reflect the nature of guidance in response to feedback received on the EDs.
 - (i) IPSASB discussions and resulting decisions related to binding arrangements necessitate a key change: the appropriate starting point to account for a transaction is first identifying whether the transaction arises without or with a binding arrangement. Thus, the final Revenue and Transfer Expenses IPSAS should first require an entity to make this determination, followed by respective guidance.
 - (ii) This change in structure and order of guidance has been presented to, and was supported by, the Drafting Group in August 2021.

Without binding arrangements	<p>Constituents generally did not have significant concerns about principles related to the accounting of transactions that arise without a binding arrangements.</p> <ul style="list-style-type: none"> • From the revenue perspective, these principles are consistent with IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>, and can be presented first in the IPSAS based on ED 71. This is followed by guidance requiring an entity to determine whether to recognize an asset arising from resource inflows (consistent with IPSAS 23). • For conceptual consistency, the Transfer Expenses IPSAS is also present accounting guidance related for transfer expenses transactions that arise outside of binding arrangements.
With binding arrangements	<p>The IPSASB is in the progress of addressing responses to the accounting for transactions with a binding arrangement in EDs 70-72. Proposed guidance will be updated or incorporated into the draft IPSAS accordingly.</p>

- (b) **Reflect IPSASB decisions made to date on principles** – The guidance is revised or expanded to reflect other discussions and decisions since December 2020.

8. The content of the two preliminary draft IPSAS:

- (a) Is presented using the same tabular format as the proposed revised guidance for binding arrangements (June 2021 [Agenda Items 6.3.1](#) and [6.3.2](#)) to consistently communicate the purpose, source, and Board decision(s) associated with each paragraph of guidance.
- (b) Includes:
 - (i) **Existing guidance**, for which constituents did not raise significant principle-related issues, subject to minor changes for clarification or consistency to address their comments;

- (ii) **New or revised guidance**, previously reviewed by the IPSASB; and
 - (iii) **Placeholders for new or revised guidance**, either pending review by the IPSASB, or to be proposed for review by the IPSASB based on upcoming analysis.
9. See [Appendix 1](#) and [Appendix 2](#) for the high-level structure of the preliminary draft IPSAS based on ED 71 and ED 72, respectively.

Decision Required

10. No decision required. For information purposes only.

Appendix 1 – Revised Structure of the draft Revenue IPSAS (based on ED 71)

The following table presents the revised structure of the draft Revenue IPSAS based on ED 71. Any revisions expected to principle-related guidance are indicated in column 2.

Guidance	Revisions subject to
Core text	
<ul style="list-style-type: none"> • Objective 	
<ul style="list-style-type: none"> • Scope 	
<ul style="list-style-type: none"> • Definitions 	<ul style="list-style-type: none"> • Drafting based on Board 2021 decisions related to the distinction between present and performance obligations • Upcoming IPSASB discussions on eligible expenditures and specified activities in December • Additional definitions will be brought in from ED 70, where appropriate, to ensure the IPSAS is free-standing
<ul style="list-style-type: none"> • Recognition <ul style="list-style-type: none"> ○ Analysis of any initial inflow of resources from revenue transactions ○ Recognition of any initial inflow of resources ○ Recognition of revenue arising from transactions without a binding arrangement ○ Recognition of revenue arising from transactions with a binding arrangement, without performance obligations 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.1 • Upcoming IPSASB discussion on the illustrative flowchart paper in December
<ul style="list-style-type: none"> • Measurement <ul style="list-style-type: none"> ○ Measurement of revenue arising from transactions without a binding arrangement ○ Measurement of revenue arising from transactions with a binding arrangement, without performance obligations ○ Subsequent measurement of receivables 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.1 • Upcoming IPSASB discussions on receivables and uncertainty of enforceability in December
<ul style="list-style-type: none"> • Presentation <ul style="list-style-type: none"> ○ Revenue arising from transactions with a binding arrangement 	
<ul style="list-style-type: none"> • Disclosure 	<ul style="list-style-type: none"> • Upcoming IPSASB discussions on disclosures
<ul style="list-style-type: none"> • Effective Date and Transition 	

Guidance	Revisions subject to
Appendix A: Application Guidance	
<ul style="list-style-type: none"> Objective 	
<ul style="list-style-type: none"> Scope 	
<ul style="list-style-type: none"> Definitions 	<ul style="list-style-type: none"> Drafting based on Board 2021 decisions related to the distinction between present and performance obligations Upcoming IPSASB discussions on eligible expenditures and specified activities in December
<ul style="list-style-type: none"> Revenue arising from transactions without a binding arrangement 	
<ul style="list-style-type: none"> Revenue arising from transactions with a binding arrangement, without performance obligations 	<ul style="list-style-type: none"> Drafting based on Board decisions related to Agenda Item 4.2.1
<ul style="list-style-type: none"> Gifts, Donations, including Goods In-Kind 	
<ul style="list-style-type: none"> Disclosure 	<ul style="list-style-type: none"> Upcoming IPSASB discussions on disclosures
Appendix B: Amendments to Other IPSAS	
<ul style="list-style-type: none"> Expected to remain consistent with structure and order in existing ED 71. 	
Basis for Conclusions	
<ul style="list-style-type: none"> Expected to mirror structure of authoritative guidance. 	
Implementation Guidance	
<ul style="list-style-type: none"> N/A - None proposed in ED 71. No additional Implementation Guidance proposed at this time. 	
Illustrative Examples	
<ul style="list-style-type: none"> Expected to mirror structure of authoritative guidance. 	

Appendix 2 – Revised Structure of the draft Transfer Expenses IPSAS (based on ED 72)

The following table presents the revised structure of the draft Revenue IPSAS based on ED 72. Any revisions expected to principle-related guidance are indicated in column 2.

Guidance	Revisions subject to
Core text	
<ul style="list-style-type: none"> • Objective 	<ul style="list-style-type: none"> • Pending Board decisions on accounting for transfer expenses with binding arrangements.
<ul style="list-style-type: none"> • Scope 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.3
<ul style="list-style-type: none"> • Definitions 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.3 • Additional definitions will be brought in from ED 70 and ED 71, where appropriate, to ensure the IPSAS is free-standing
<ul style="list-style-type: none"> • Recognition <ul style="list-style-type: none"> ○ Recognition of transfer expenses arising from transactions without a binding arrangement ○ Recognition of transfer expenses arising from transactions with a binding arrangement 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.2, Agenda Item 4.2.4 and subsequent decisions on the accounting model(s) for transfer expenses with binding arrangements
<ul style="list-style-type: none"> • Measurement <ul style="list-style-type: none"> ○ Measurement of transfer expense arising from transactions without a binding arrangement ○ Measurement of transfer expenses arising from transactions with a binding arrangement 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.2, Agenda Item 4.2.4 and subsequent decisions on the accounting model(s) for transfer expenses with binding arrangements
<ul style="list-style-type: none"> • Presentation <ul style="list-style-type: none"> ○ Transfer expenses arising from transactions with a binding arrangement 	
<ul style="list-style-type: none"> • Disclosure • Effective Date and Transition 	<ul style="list-style-type: none"> • Upcoming IPSASB discussions on disclosures
Appendix A: Application Guidance	
<ul style="list-style-type: none"> • Objective 	
<ul style="list-style-type: none"> • Scope 	
<ul style="list-style-type: none"> • Definitions 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.3
<ul style="list-style-type: none"> • Transfer expenses arising from transactions without a binding arrangement 	
<ul style="list-style-type: none"> • Transfer expenses arising from transactions with a binding arrangement, without performance obligations 	<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.2, Agenda Item 4.2.4 and subsequent decisions on the accounting

Guidance	Revisions subject to
	model(s) for transfer expenses with binding arrangements
<ul style="list-style-type: none"> • Disclosure 	<ul style="list-style-type: none"> • Upcoming IPSASB discussions on disclosures
Appendix B: Amendments to Other IPSAS	
<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.3 • Expected to remain consistent with structure and order in existing ED 71. 	
Basis for Conclusions	
<ul style="list-style-type: none"> • Expected to mirror structure of authoritative guidance. 	
Implementation Guidance	
<ul style="list-style-type: none"> • Drafting based on Board decisions related to Agenda Item 4.2.2, Agenda Item 4.2.4 and subsequent decisions on the accounting model(s) for transfer expenses with binding arrangements 	
Illustrative Examples	
<ul style="list-style-type: none"> • Expected to mirror structure of authoritative guidance. 	

Supporting Document – Updated Project Plans

The following updated project plans summarize the progress to date on the Revenue and Transfer Expenses projects as of September 2021, and are provided for reference purposes. Papers presented in this Agenda Item are noted in green. The order of papers to be presented at future Board discussions is subject to change based on progress and Board discussions.

Table 1: Revenue Project Plan

#	Issue	Principle-Related Paper	Non-Principle-Related or Drafting Paper
1	Options to Present Proposed Revenue Guidance	March Agenda Item 5.2.3	n/a
2	Clarifying Binding Arrangements	March Agenda Item 5.2.4	June Agenda Items 6.2.1 and 6.3.1
3	Distinguishing Revenue from Performance Obligations as a Separate Type of Revenue	March Agenda Item 5.2.5	Planned for Q4
4	Transactions with Components within the Scope of Both Standards	March Agenda Item 5.2.6	Planned for Q4
5	Existence of a Liability in a Binding Revenue Arrangement without Performance Obligations	March Agenda Item 5.2.7	Planned for Q4
6	How Enforceability is Exercised	June Agenda Item 6.2.3	June Agenda Item 6.3.1
7	Revising and Applying the Guidance on the Definition of a Liability	June Agenda Item 6.2.4	Planned for Q4
8	Recognition and Derecognition of a Liability (Deferred Revenue) in Binding Arrangements	Agenda Item 4.2.1	Planned for Q4
9	Considering the Purpose and Benefits of the Drafting Group	n/a	Agenda Item 4.2.5
10	Draft IPSAS based on the Exposure Drafts (EDs)	n/a	Agenda Item 4.2.6
11	Reflecting Progress in the Revenue Project	n/a	Planned for Q4
12	Uncertainty of enforceability as a measurement issue	Planned for Q4	pending
13	Clarify specified activities and eligible expenditures	Planned for Q4	pending
14	Accounting for non-contractual receivables	Planned for Q4	pending
15	Reassess existing disclosures and consider any additional disclosures	pending	pending
16	Other technical comments	n/a	pending
17	Other practical considerations	n/a	pending
18	Reassess or clarify existing definitions (e.g., performance obligation, revenue, income)	n/a	pending
19	Clarify or enhance existing proposed guidance	n/a	Pending

#	Issue	Principle-Related Paper	Non-Principle-Related or Drafting Paper
20	Add additional guidance	<i>n/a</i>	<i>pending</i>
21	Consider existing or additional examples	<i>n/a</i>	<i>pending</i>
22	Appropriate titles of the future IPSAS on revenue	<i>n/a</i>	<i>pending</i>
23	Amendments to Other IPSAS	<i>n/a</i>	<i>pending</i>
24	Communications for the Release of the Final Standard(s)	<i>n/a</i>	

Table 2: Transfer Expenses Project Plan

#	Issue	Principle-Related Paper	Non-Principle-Related or Drafting Paper
1	Application of the Executory Contract Approach	April Agenda Item 1.2.3	<i>Drafted – will be presented in Q4</i>
2	Binding arrangements (i.e., enforceability in the context of transfer expenses accounting)	April Agenda Item 1.2.2 , and June Agenda Item 6.2.2	June Agenda Item 6.3.2
3	Existence of an Asset in Binding Arrangements	Agenda Item 4.2.2	<i>Planned for Q4</i>
4	Clarifying the Scope of the Transfer Expenses Standard	Agenda Item 4.2.3	Agenda Item 4.2.3
5	Distinguishing Transfer Expenses with and without Performance Obligations	Agenda Item 4.2.4	<i>Planned for Q4</i>
6	Considering the Purpose and Benefits of the Drafting Group	<i>n/a</i>	Agenda Item 4.2.5
7	Draft IPSAS based on the Exposure Drafts (EDs)	<i>n/a</i>	Agenda Item 4.2.6
8	Recognition and measurement of transfer expenses	<i>Planned for Q4</i>	<i>pending</i>
9	Reassess existing disclosures and consider any additional disclosures	<i>pending</i>	<i>pending</i>
10	Other revisions to maintain consistency with revenue standards	<i>n/a</i>	<i>pending</i>
<i>multiple</i>	Other comments and clarifications	<i>n/a</i>	<i>pending</i>