Executory Contract Accounting Principles for Present Obligations – Transfer Expenses

31. This paper does not address transfer expenses that arise without a binding arrangement as executory contract accounting principles are not applicable without a binding arrangement.

32. Transfer expenses arising from a binding arrangement may impose performance obligations or present obligations on transfer recipients. As discussed earlier, transfer expenses with performance obligations are accounted for using executory contract accounting principles.

33. Similarly, revenue with present obligations is accounted for using executory contract accounting principles. However, the proposals in ED 72 for the corresponding transfer expenses are not symmetrical with ED 71, as the IPSASB considered that an entity had no asset for the recipients' present obligations.

34. As noted above, some respondents consider that a transfer provider would have an asset where it transfers resources to a transfer recipient prior to the recipient satisfying its obligations. In reviewing these comments, Staff noted that the proposals in ED 72 are inconsistent with the definition of a binding arrangement as "an arrangement that confers both enforceable rights and obligations" and with the IPSASB's decision regarding the enforceability of binding arrangements. This suggests that the transfer providers' rights under the arrangement meet the definition of an asset.

35. Executory contract accounting principles can be applied to binding arrangements that give rise to revenue with present obligations. As the transfer provider is a party to that same binding arrangement, it follows that executory contract accounting principles can also be applied to the corresponding transfer expense. The transfer providers' rights and obligations under the binding arrangements are interdependent and cannot be separated.

36. Further work is required to fully establish the nature of the transferer provider's right (as part of the combined right and obligation and subsequently). However, at its March 2021 meeting the IPSASB confirmed that binding arrangements are always enforceable. Because binding arrangements are enforceable, a right to a refund will exist and will satisfy the definition of an asset, as some respondents commented.

37. A return obligation may not be an explicit term in a binding arrangement, but may be an implicit term. The IASB *Conceptual Framework* notes the existence of implicit terms in a contract[10]. In many jurisdictions, the legal framework interprets binding arrangements as imposing an obligation on an entity to provide a refund in the event that it receives resources but does not satisfy its obligations.

38. Applying executory contract accounting principles to a binding arrangement with a present obligation would mean adopting the same accounting principles as for transfer expenses with performance obligations and as for revenue with present obligations:

    (a) No items are recognized if neither party has satisfied their obligations (the arrangement remains executory).

    (b) Where the transfer provider transfers resources prior to the transfer recipient satisfying its obligations, the provider recognizes an asset and derecognizes the resources transferred.

    (c) Where the transfer recipient satisfies its obligations before resources are transferred, the transfer provider recognizes a liability and an expense.

[10] IASB Conceptual Framework, 4.60