IPSASB International Public Sector Accounting Standards Board®

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 9**	For:
Meeting Location:	Lisbon, Portugal		☐ Approval ☒ Discussion ☒ Information
Meeting Date:	September 24–27, 2019		

TRANSFER EXPENSES (ED 72)

Project summary	The aim of the project is to develop a standard(s) that provides recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits.	
Meeting objectives	***Topic***	***Agenda Item***
Project management	Transfer Expenses Road Map	9.1.1
	Instructions up to June 2019 Meeting	9.1.2
	Decisions up to June 2019 Meeting	9.1.3
Decisions required at this meeting	Objective, Scope and Definitions	9.2.1
	Recognition and Measurement–Public Sector Performance Obligation Approach	9.2.2
	Recognition and Measurement–Transfer Expenses without Performance Obligations	9.2.3
	Presentation	9.2.4
Other supporting items	Partial draft of ED 72, *Transfer Expenses*	9.3.1

TRANSFER EXPENSES ROAD MAP

Meeting	Objective: IPSASB to consider:
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	Consultation Period
June 2020	
September 2020	1. Review of responses
December 2020	1. Initial discussion of issues raised
March 2021	1. Further discussion of issues raised 2. Review first draft of proposed IPSAS
June 2021	1. Further discussion of issues raised 2. Review revised draft of proposed IPSAS
2nd Half 2021	1. Approval of IPSAS

INSTRUCTIONS UP TO JUNE 2019 MEETING

Meeting	Instruction	Actioned
June 2019	Develop accounting requirements for financial support where explicit, separately identifiable financial support is accounted for separately; account for all other payments using the PSPOA.	Agenda Item 9.3.1 (paragraphs AG55-AG56)
June 2019	Revise the definitions of transfer provider and transfer recipient to avoid the current circularity.	Agenda Item 9.2.1
June 2019	Keep testing the definition of transfer expense to ensure there are no problems.	Agenda Item 9.2.1
June 2019	Refine the scope diagram to provide better clarity for use with stakeholders.	To be considered at a future meeting.
June 2019	Include research grants in the scope examples in ED 72.	To be considered at a future meeting.
March 2019	Review the presentation requirements alongside the two Revenue EDs at the September 2019 meeting.	Agenda Item 9.2.4
March 2019	Review the accounting for grants and other transfers alongside proposals for IPSAS 23 revisions.	Agenda Item 9.2.3
March 2019	Continue to review the definition of expenses as the ED is developed to ensure that the definition remains appropriate for the project.	Agenda Item 9.2.1
March 2019	Relocate the Meeting the Objective section in line with the similar changes being made to the *Revenue* ED.	Agenda Item 9.2.1
September 2018	Develop guidance on enforceability to reflect the subsequent discussions on the PSPOA in the context of the Revenue project.	Agenda Item 9.2.2
September 2018	Develop examples to illustrate the operation of the PSPOA.	To be considered at a future meeting.

DECISIONS UP TO JUNE 2019 MEETING

Meeting	Decision	BC Reference
June 2019	Transfers conditional on appropriations would only give rise to an obligation for the current appropriation period.	
June 2019	Include guidance on levies (based on IFRIC 21)	
June 2019	Include guidance on subsequent measurement of non-contractual payables.	
June 2019	Tentatively adopted the term “financial support” for the items previously referred to as subsidies, to avoid conflicts with GFS terminology.	
June 2019	Tentatively adopted the definition of transfer expense without amendments.	
June 2019	Research grants where the research was provided to the transfer provider should be outside the scope of ED 72; only research grants where the research was not provided to the transfer provider should be within the scope of ED 72.	
June 2019	The term “transfer expense” should be adopted	
June 2019	The scope of ED 72 should be based on the GFS definition of “transfers”.	
March 2019	Proceed with the alternative narrower scope discussed at the meeting, which excludes commercial transactions.	
March 2019	Exclude contributions from owners from the project scope.	
March 2019	Retain the existing definition of expenses in IPSAS 1.	
March 2019	Include a cross reference to the definition of expenses in IPSAS 1 in the ED.	
September 2018	The Public Sector Performance Obligation Approach (PSPOA) could be applied to some non-exchange expenses.	
September 2018	Where the PSPOA is applied, this may involve the recognition of an asset for the right to have goods and services transferred to a third party.	
June 2017	All decisions up to the June 2017 meeting were reflected in the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*.	

Objective, Scope and Definitions

Questions

1. The IPSASB is asked to provide guidance to staff on the finalization of the objective, scope and definitions sections of ED 72, *Transfer Expenses*.

Detail

Background

2. At its March 2019 meeting, the IPSASB agreed to retain the definition of expenses in IPSAS 1, *Presentation of Financial Statements*, and to exclude contributions from owners from the project scope. The IPSASB instructed staff to relocate the Meeting the Objective section of the previous draft ED to form part of the Application Guidance, in line with the similar changes being made to ED 70, *Revenue with Performance Obligations*.

3. At its June 2019 meeting, the IPSASB agreed that the scope of ED 72 should be limited to expenses related to transfers as defined in GFS, i.e., those transactions where an entity (a provider) provides resources (usually cash, but also goods, services or other assets) to a recipient without receiving anything from the recipient in return. Transfers covers transactions where the provider is paying the recipient to provide goods or services to third-party beneficiaries, and transactions where the recipient is the direct beneficiary.

4. At its June 2019 meeting, the IPSASB also tentatively agreed to adopt the terms transfer expense, transfer provider and transfer recipient. The IPSASB agreed the definition of a transfer expense at that meeting, and instructed staff to further develop the definitions of transfer provider and transfer recipient.

5. Staff presented a draft ED to the March 2019 meeting, based on the assumption that the scope of the ED should be a residual expense standard. The revised scope discussed at that meeting, and agreed at the June 2019 meeting, has meant that significant changes were required throughout the document to reflect the revised scope. Consequently, the text of ED 72 is presented as new text rather than as a marked-up text showing changes from the previous version.

Objective (Paragraph 1 of ED 72)

6. The objective of ED 72 is set out in paragraph 1 of ED 72. Other than changes to reflect the revised scope and terminology agreed by the IPSASB in its June 2019 meeting, the wording is unchanged from the wording the IPSASB saw in March 2019. The wording also mirrors the objective in ED 70.

7. As instructed by the IPSASB, the guidance on meeting the objective has been relocated to the Application Guidance section of ED 72 (paragraphs AG-AG4).

Scope (Paragraphs 2–5 of ED 72)

8. ED 72 addresses the accounting for transfer expenses, as defined in the ED discussed below at paragraph 12. Consequently, the ED only addresses those transactions where an entity provides resources to another entity without receiving anything in return.

9. Some transactions are specifically excluded from the scope of ED 72 as they are addressed elsewhere:

   (a) Provisions as defined in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

   (b) Collective services and individual services as defined in IPSAS 19;

   (c) Social benefits as defined in IPSAS 42, Social Benefits; and

   (d) Income taxes (see the international or national accounting standard dealing with income taxes).

10. ED 72 also provides guidance on contributions from owners and distributions to owners, and explains that these transactions do not meet the definition of a transfer expense. Consequently, these transactions are outside the scope of ED 72.

11. ED 72 includes guidance on accounting for transactions that are partially in the scope of ED 72 and partially in the scope of another Standard. This guidance is based on the equivalent guidance in ED 70.

Definitions

12. ED 72 includes the following definitions:

Definition	**Staff Comment**
Stand-alone purchase price (of a good or service) is the price at which an entity would purchase a promised good or service separately from a transfer recipient.	The stand-alone purchase price is the transfer expenses equivalent of the stand-alone price in ED 70. The definition is used in the Public Sector Performance Obligation Approach (PSPOA).
The **transaction consideration** (for a binding arrangement which imposes one or more performance obligations on a transfer recipient) is the amount of consideration to which an entity (the transfer provider) expects to be obligated to pay in exchange for the transfer recipient transferring promised goods or services to a third-party beneficiary.	The transaction consideration is the transfer expenses equivalent of transaction price in ED 70. It is used in the PSPOA.
A **transfer expense** is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset.	The definition of transfer expense is as agreed by the IPSASB at its June 2019 meeting, apart from the addition of the word “other” before the word “asset”; this change was made for consistency with ED 70.

Definition	**Staff Comment**
A **<u>transfer provider</u>** is an entity that provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return.	Staff has developed a new definition of transfer provider since the June 2019 meeting to avoid the circularity of the previous definition. Transfer provider is also used in ED 71, *Revenue without Performance Obligations*, and the IPSASB may consider that its final location should be in that ED.
A **<u>transfer provider's binding arrangement asset</u>** is an entity's right to have goods or services transferred to a third-party beneficiary in exchange for consideration provided.	Because the terms binding arrangement asset and binding arrangement liability are used in ED 70 with different meanings (because of the different perspective between the provider and the recipient), staff has modified the terms to refer to the transfer provider in ED 72. The IPSASB may consider that another term is preferable.
A **<u>transfer provider's binding arrangement liability</u>** is an entity's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary when that obligation is conditioned on something other than the passage of time (for example, the transfer recipient's future performance).	
A **<u>transfer recipient</u>** is an entity that receives a good, service, or other asset from another entity without providing any good, service, or other asset to that entity (paragraph AG8 provides additional guidance).	Staff has developed a new definition of transfer recipient since the June 2019 meeting to avoid the circularity of the previous definition. Transfer recipient is also used in ED 71, and the IPSASB may consider that its final location should be in that ED.

13. ED 72 relies on the definitions of binding arrangement, contract, performance obligation and third-party beneficiary in ED 70, and cross-refers to these definitions without repeating them. A cross-reference to the definition of expenses in IPSAS 1 is also included.

14. Should the IPSASB conclude that the definitions of transfer provider and transfer recipient should be located in ED 71, which would be the usual approach as the definitions will first appear in that ED, staff recommend including a similar cross-reference to those definitions in ED 71.

Decisions Required

15. The IPSASB is asked whether it supports the objective of ED 72 as drafted by staff.

16. The IPSASB is asked whether it supports the scope of ED 72 as drafted by staff; and if not, to provide guidance on the revisions to the drafting that are required.

17. The IPSASB is asked whether it supports the definitions of:

    (a) Stand-alone purchase price;

    (b) Transaction consideration;

(c) Transfer expense;

(d) Transfer provider;

(e) Transfer provider's binding arrangement asset;

(f) Transfer provider's binding arrangement liability; and

(g) Transfer recipient.

If the IPSASB does not support a definition, it is asked to provide alternative wording.

18. The IPSASB is asked whether it supports the staff recommendation that the definitions of transfer provider and transfer recipient be located in ED 71, with a cross-reference provided in ED 72.

Recognition and Measurement–Public Sector Performance Obligation Approach

Questions

1. The IPSASB is asked to provide guidance to staff on the finalization of the recognition and measurement sections of the Public Sector Performance Obligation Approach (PSPOA) in ED 72, *Transfer Expenses*.

Detail

Background

2. At its September 2018 meeting, the IPSASB agreed that the (PSPOA) was applicable to those non-exchange expenses which imposed performance obligations (as defined in ED 70, *Revenue with Performance Obligations*) on the recipient. The IPSASB agreed that such cases could result in the provider recognizing an asset for the right to have goods and services transferred to a third-party beneficiary.

3. At the IPSASB's March 2019 meeting, staff presented a draft ED that included the core text for the PSPOA, based on the extant draft of ED 70. Following the IPSASB's decision at that meeting to narrow the scope of the project, which was confirmed at the June 2019 meeting, the text has been substantially amended to remove references to goods or services being transferred to the provider. Consequently, the text of ED 72 is presented as new text rather than as a marked-up text showing changes from the previous version.

Comparison with ED 70

4. The PSPOA sections of ED 72 are drawn primarily from ED 70, with changes to reflect the different context of ED 72. The primary differences in context are:

    (a) ED 72 deals with the recognition of expenses, not revenue, and therefore reflects the provider's (the customer's) perspective, not the recipient's (the supplier's) perspective. This change in perspective means that ED 72 must be very clear about which entity it is referring to at any point, as expenses are recognized as the recipient–not the provider, who recognizes the expense–satisfies their performance obligations.

    (b) The scope of ED 72 covers transfers, and excludes transactions where the provider receives goods or services from the recipient. Such transactions are covered by ED 70 (and are the main transactions envisaged in IFRS 15, *Revenue from Contracts with Customers*, on which ED 70 is based).

5. As well as the text in ED 72 being modified from that in ED 70 to reflect the different circumstances of ED 72, some sections are omitted from ED 72 because they relate only to the transfer recipient (the supplier).

6. The following table explains the differences between ED 70 and ED 72, other than those explained by the drafting changes discussed in paragraph 4 above, focusing on the recognition and measurement sections of both EDs. Key issues are shown in bold text.

Section	Paragraphs in ED 70	Paragraphs in ED 72	Differences and Rationale
Objective, Scope and Definitions	1-7 AG2-AG26	1-7 AG2-AG23	The objective, scope and definitions in ED 72 are discussed in Agenda Item 9.2.1. The Application Guidance in ED 72 for binding arrangements (defined in ED 70) and enforceability is based on ED 70, omitting the references to ED 71 and to the right to enforce payment. ED 72 includes additional guidance about government promises not being on and of itself a binding arrangement. Guidance on other definitions is unique to each ED, reflecting the different contexts.
Transfer Expenses with Performance Obligations	N/A	8	Paragraph setting out when the performance obligation approach is used in ED 72; this is a scope issue in ED 70.
Public Sector Performance Obligation Approach	N/A	9	Paragraph summarizing the five steps in the PSPOA, with cross-references to the relevant paragraphs. This is addressed in the objective section of ED 70.
Recognition: Identifying the Binding Arrangement (Step 1)	8-20 AG27-AG32	10-22 AG24	The criteria for recognizing a transfer expense with performance obligations omits the "economic substance" criterion in ED 70, and the related Application Guidance. The Application Guidance in ED 72 explains that transfers always have economic substance, as resources are transferred without any corresponding receipt. ED 72 includes additional guidance on binding arrangements with some components that have performance obligations and some that do not. In ED 70, this is addressed as part of the scope, as binding arrangements without performance obligations are covered by ED 71. ED 72 omits the Application Guidance in ED 70 on the probability of collection, as this is only relevant to the recipient.
Recognition: Identifying the Performance Obligations (Step 2)	21-29 AG33-AG43	23-31 AG25-AG35	Some examples of goods and services in binding arrangements have been omitted in ED 72 as they are not relevant to transfers (for example, goods or services that the purchaser can resell). ED 70 includes guidance that a purchaser can generate the economic benefits or service potential from the good or service transferred to a third-party beneficiary when the transfer of the good or service to the third-party beneficiary contributes to the purchaser achieving its service delivery objectives. This has been

Section	Paragraphs in ED 70	Paragraphs in ED 72	Differences and Rationale
			included in Application Guidance in ED 72 as staff consider that this better fits the context of ED 72.
Recognition: Satisfaction of Performance Obligations (Step 5)	30-44 AG44-A61	32-45 AG36-AG54	ED 72 excludes guidance (including the related Application Guidance) about agreements to repurchase a transferred asset, as the provider does not control any transferred assets. ED 70 includes guidance on 'bill and hold arrangements.' ED 72 retains this guidance (paragraphs 38(c) and AG86-AG89) as staff consider it possible that a transfer provider could require a transfer recipient to make goods available to third-party beneficiaries on request, and to store the goods until the request is made. **Staff is seeking the IPSASB's views as to whether this guidance is required, or should be removed.** ED 70 includes both input methods and output methods for measuring the satisfaction of performance obligations. ED 72 emphasizes output methods (from the transfer recipient's perspective), but notes that input methods may also be used where such information is both available to the transfer provider and relevant to the assessment of an expense (paragraphs 41 and AG52) The guidance regarding costs incurred that do not contribute to a transfer recipient's progress in satisfying the performance obligation has been shortened from ED 70 to remove references to information that will not be available to the transfer provider (paragraph AG54). **As the information required to apply an input method will rarely be available to the transfer provider, it may be more appropriate to remove this guidance, and staff is seeking the IPSASB's views on the retention or removal of this guidance.** ED 70 includes Application Guidance that a transfer recipient has a right to payment for performance completed to date if it would be entitled to an amount that at least compensates it for its performance completed to date in the event of termination; compensation includes costs plus a reasonable margin. **As the transfer provider may not have information regarding the transfer recipient's costs and margin, ED 72 includes a rebuttable presumption (paragraph AG43) that a**

Section	Paragraphs in ED 70	Paragraphs in ED 72	Differences and Rationale
			recipient's enforceable right to payment is sufficient to provide a reasonable margin, and the IPSASB is asked to confirm it is content with this approach. ED 70 includes a practical expedient that if an entity has a right to consideration from a purchaser in an amount that corresponds directly with the value to the purchaser of the entity's performance completed to date, the entity may recognize revenue in the amount to which the entity has a right to invoice. This will usually apply to services billed on a time basis, for example an hourly basis. **This expedient is also included in ED 72; (paragraph AG50) however, as it requires the transfer provider to know the level of services the transfer recipient has provided (even if these have not yet been billed), this may not be helpful to the transfer provider, and the IPSASB is asked whether this practical expedient should be retained or removed.**
Measurement	45	46	Measurement in ED 70 is based on the transaction price. In ED 72, this has been reinterpreted as the transaction consideration.
Measurement: Determining the Transaction Consideration (Step 3)	46-71 AG62-AG71	47-70 AG55-AG56	ED 70 includes guidance (including Application Guidance) on refund liabilities that is omitted from ED 72, as refund liabilities are only relevant to the transfer recipient. ED 70 includes guidance on sales-based and usage-based royalties. ED 72 only includes guidance on usage-based royalties (paragraphs 57 and AG83-AG85), as sales-based royalties are not relevant to a transfer provider. ED 70 measures non-cash consideration at fair value, which is consistent with measurement approach to recognizing assets in other IPSAS. In ED 72 (paragraphs 65-67), non-cash consideration is recognized at the carrying amount of the asset derecognized, which again is consistent with the derecognition provisions in other IPSAS.
Measurement: Allocating the Transaction Consideration to Performance	72-103 AG72-AG137	71-88 AG57-AG91	Allocation in ED 70 is based on the stand-alone price. In ED 72, this has been reinterpreted as the stand-alone purchase price. ED 70 allows several approaches for determining the stand-alone price. One method is the estimated cost approach. **This approach**

Section	**Paragraphs in ED 70**	**Paragraphs in ED 72**	**Differences and Rationale**
Obligations (Step 4)			**has also been included in ED 72 (paragraph 77(b)); however, staff question how feasible this will be for a transfer provider, and are seeking the IPSASB's views on whether this approach should be retained or removed.** ED 70 includes binding arrangement costs. These are not relevant to a transfer provider, and are omitted from ED 72. The Application Guidance in ED 70 includes Application Guidance on accounting for warranties. Some paragraphs refer to the requirements in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. These requirements are only relevant to the transfer recipient, and are therefore not included in ED 72 ED 70 includes Application Guidance on determining whether the transfer recipient is acting as a principal or an agent. This guidance is not relevant to the transfer provider and is omitted in ED 72. ED 70 includes additional Application Guidance on determining the stand-alone price in the public sector. Additional guidance is not required in ED 72, as there is no IFRS equivalent. ED 70 includes Application Guidance on estimating the likelihood of the transfer provider not exercising all the rights they have paid for. This guidance is omitted from ED 72; however, the remaining guidance on unexercised rights is retained. ED 72 does not include Application Guidance found in ED 70 about the transfer recipient's right to charge a fee for setting up a binding arrangement, and how to allocate that fee to performance obligations. Both ED 70 and ED 72 include Application Guidance on determining the nature of the transfer recipient's promise. An example (paragraph AG79(b) refers to ongoing activities that support or maintain the value of intellectual property. **Staff question the usefulness of the example to a transfer provider, and are seeking the IPSASB's views as to whether the example should be retained or removed.** ED 70 includes Application Guidance on repurchase arrangements and consignment

Section	Paragraphs in ED 70	Paragraphs in ED 72	Differences and Rationale
			arrangements. Staff do not consider these to be relevant to transfer providers, and have omitted the guidance from ED 72. ED 70 includes Application Guidance on purchaser acceptance. This has been redefined as third-party acceptance in ED 72, and the guidance redrafted to be relevant to the context of ED 72.

7. Presentation and disclosure requirements are not considered in the above table, as these are still under development. The disclosure requirements for ED 70 are discussed in Agenda Item 7.2.1, and the presentation and disclosure requirements for ED 72 are discussed in Agenda Item 9.2.4.

8. Should any members wish to compare the text in ED 70 and ED 72, the text of ED 70 is available from staff on request.

Decisions Required

9. The IPSASB is asked whether it supports the approach to the PSPOA in ED 72 as drafted by staff.

10. The IPSASB is asked to provide comments on the text of the PSPOA in ED 72. In particular:

    (a) The IPSASB is asked whether it wishes to retain or remove the following items of guidance:

        (i) Guidance on bill and hold arrangements (paragraphs 38(c) and AG86-AG89);

        (ii) Guidance on input methods for measuring the satisfaction of performance obligations (paragraphs 41 and AG52-AG54);

        (iii) The practical expedient regarding the transfer recipient's performance to date (e.g., hourly billing) (paragraph AG50);

        (iv) Guidance on the estimated cost approach for determining the stand-alone purchase price (paragraph 77(b)); and

        (v) The example in the guidance on determining the nature of the transfer recipient's promise that refers to ongoing activities that support or maintain the value of intellectual property (paragraph AG79(b)); and

    (b) The IPSASB is asked whether it supports the use of the rebuttable presumption that a recipient's enforceable right to payment is sufficient to provide a reasonable margin (paragraph AG43).

Recognition and Measurement–Transfer Expenses without Performance Obligations

Questions

1. The IPSASB is asked to provide guidance to staff on the finalization of the recognition and measurement sections of Transfer Expenses without Performance Obligations in ED 72, *Transfer Expenses*.

Detail

Background

2. At the IPSASB's March 2019 meeting, staff presented a draft ED that included the core text for transfer expenses without performance obligations. Following the IPSASB's decision at that meeting to narrow the scope of the project, which was confirmed at the June 2019 meeting, the text has been substantially amended. Consequently, the text of ED 72 is presented as new text rather than as a marked-up text showing changes from the previous version.

3. At its March 2019 meeting, the IPSASB instructed staff to review the accounting for transfers alongside the proposals for the IPSAS 23 revisions that are found in ED 71, *Revenue without Performance Obligations*. This paper discusses how the proposals for transfer expenses without performance obligations relate to the proposals in ED 71 and in Agenda Item 8.

4. At its June 2019 meeting, the IPSASB agreed that transfers conditional on appropriations would only give rise to an obligation for the current appropriation period. The IPSASB also agreed to include guidance on levies and on the subsequent measurement of non-contractual payables in ED 72.

Recognition Principle

5. For transfer expenses without performance obligations, ED 72 adopts (in paragraph 90) the recognition principle that a transfer provider recognizes a transfer expense without performance obligations at the earlier of the following dates:

   (a) When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider recognizes a liability representing its obligation to transfer the resources; and

   (b) When the transfer provider ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control (which will often be cash) in accordance with other Standards.

6. Transfer expenses without performance obligations covers two groups of transactions:

   (a) Transfers made without a binding arrangement. Paragraph 92 of ED 72 notes that such transfers are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources. This mirrors the approach in ED 71, where revenue would be recognized when the resources were received.

(b) Transfers made under a binding arrangement, but without performance obligations. These transactions are discussed in the next section of this paper.

Transfers Made under a Binding Arrangement but without Performance Obligations

7. Under ED 72, transfers made under a binding arrangement, but without performance obligations are recognized as an expense when the transfer provider has a present obligation to transfer resources, or, if earlier, when the transfer is made.

8. The treatment of such transactions under ED 71 is addressed in Agenda Item 8 elsewhere on this Agenda. However, it is likely that the treatment of such transactions in ED 72 will not mirror the treatment of the revenue in ED 71. The extent to which the treatments will differ will depend on the decisions taken by the IPSASB at this meeting.

9. Agenda Item 8 discusses whether a transfer recipient should recognize revenue or a liability where it receives a transfer that doesn't impose performance obligations, but does impose enforceable activities – a requirement that the transfer recipient act in a certain way, without there being a requirement that it must transfer goods or services to the transfer provider or a third-party beneficiary. This will depend on on whether, as a result of the binding arrangement, the transfer recipient has no realistic alternative to an outflow of resources.

10. If the IPSASB decides that no liability should be recognized for enforceable activities, then the approach in ED 71 is likely to result in revenue being recognized at the same point that an expense is recognized under ED 72. If the IPSASB decides that enforceable activities can give rise to a liability, and that revenue is therefore not recognized immediately an asset is recognized, the timing of the revenue recognition under ED 71 and the expense recognition under ED 72 is likely to be different.

11. This is because, while a enforceable activity might give rise to a liability for the transfer recipient, there is no equivalent asset for the transfer provider to recognize. To use an example that the IPSASB has already discussed, a transfer provider enters into a binding arrangement to provide a research grant to a transfer recipient, which is required to carry out the research, but which has no requirement to transfer the results of that research to the transfer provider or a third party recipient. The requirement to undertake the research is a enforceable activity that might – depending upon the IPSASB's decisions in Agenda Item 8 – give rise to a liability for the recipient, and hence the recipient might not recognize revenue when it receives the grant.

12. For the transfer provider, the question the IPSASB needs to consider is whether there is an asset to be recognized. The definition of an asset requires there to be a resource presently controlled by the transfer provider as a result of a past event. Staff consider that the past event would be the binding arrangement, and hence there is no difficulty with this part of the definition.

13. The rest of the definition does raise difficulties. Staff are not convinced that there is an identifiable resource, although it could be argued that the research is the resource. However, even if there is a resource – the research –the transfer provider never gains control of this resource. This can be contrasted with the Public Sector Performance Obligation Approach (PSPOA). Under the PSPOA, the transfer provider controls a right to have goods or services transferred to third-party beneficiaries. With enforceable activities, there is no equivalent right, and hence no asset that the transfer provider can recognize. In the absence of an asset that can be recognized, staff are of the view that the transfer provider would recognize an expense, either when it transfers the resources or when it has a present obligation to do so.

14. Staff are aware that some may hold a different view, arguing that the right to have funds returned if the recipient does not meet its enforceable activities meets the definition of an asset. Staff does not support this view, for the following reasons:

    (a) Staff do not consider that this right meets the requirement of being presently controlled by the transfer provider. At the time the provider transfers the resources, there is no right of return. This only arises if the transfer recipient does not comply with the terms of the binding arrangement. The circumstances that could give rise to a right of return arising are wholly outside the control of the transfer provider. At the point the transfer provider transfers the resources, any asset is at best contingent.

    (b) In some circumstances a transfer provider may have a present obligation to transfer the resources, but not yet have made the transfer. In such cases, the transfer provider will recognize a payable. The right to have funds returned cannot be an asset when the funds are yet to be transferred and are still included as an asset in the transfer provider's statement of financial position. This makes it clear that the asset has to be related to the enforceable activities. As discussed above, staff do not consider that any asset arises from those.

15. The question of whether the right to have funds returned is an asset was previously considered by the IPSASB in discussing the PSPOA. The IPSASB agreed that the right to have funds returned was not an asset, and that the asset under the PSPOA is the right to have goods and services transferred to third-party beneficiaries (see the September 2018 meeting papers). If the right to have the funds returned is not an asset under the PSPOA, staff do not consider it can be an asset where there is an enforceable activity but not a performance obligation.

Alternative Approach

16. If the IPSASB decides that enforceable activities can give rise to a liability for the transfer recipient, and that revenue is therefore not recognized immediately an asset is recognized, the IPSASB may wish to consider whether a similar approach should be taken when recognizing an expense.

17. The analysis above does not preclude such an alternative approach whereby an expense is only recognized as the transfer recipient performs the performance activities specified in the binding arrangement. However, because no asset would be recognized by the transfer provider, this alternative approach would require the use of 'other resources'. Given the IPSASB's reluctance to adopt the use of 'other resources' at previous meetings, staff do not recommend this approach.

Debt Forgiveness

18. ED 72 includes provisions (paragraph 94) for recognizing an expense when debt is forgiven, rather than when an asset is transferred. The text is based on the equivalent text in ED 71.

Transfer Expenses Without Performance Obligations Made as a Series of Transfers

19. Transfer expenses without performance obligations may be made as a series of transfers of resources, for example where the transfer provider enters into a binding arrangement to provide annual funding over a three-year period. ED 72 requires (paragraph 96) the transfer provider to apply the recognition criteria to each transfer of resources separately to determine whether an expense is to be recognized.

Transfer Expenses Without Performance Obligations Subject to Appropriations

20. At its June 2019 meeting, the IPSASB agreed that transfers conditional on appropriations would only give rise to an obligation for the current appropriation period. This guidance has been incorporated into ED 72 (paragraphs 97 and AG98-AG99).

Taxes Paid or Payable

21. At its June 2019 meeting, the IPSASB agreed to include guidance on accounting for levies, based on IFRIC 21, *Levies*. This guidance has been incorporated into ED 72 (paragraphs 100 and AG100-AG107).

22. ED 72 uses the term taxes rather than levies, and cross-refers to the definition of taxes in ED 71. This definition is consistent with the definition of levies in IFRIC 21. The past event in IFRIC 21, and hence ED 72, is consistent with the taxable event adopted in IPSAS 23 and ED 71.

23. Under ED 72, an entity would recognize an asset for prepaid taxes, unlike other transfers. This is because there would be a right to repayment prior to a present obligation to pay taxes arising.

Measurement Principle

24. Where a transfer provider recognizes a transfer expense at the date it transfers the resources to the transfer recipient, it measures the expense at the carrying amount of the resources transferred (paragraph 101). Where the resources transferred are non-cash items, this may result in the measurement of the expense being different to the measurement of the revenue under ED 71, where the transfer recipient would recognize the asset at its fair value. The derecognition of assets at their carrying amount is consistent with the derecognition requirements in other IPSAS.

25. Where a transfer provider recognizes a transfer expense prior to transferring the resources to the transfer recipient, it measures the expense and liability at the best estimate of the costs that it will incur in settling the liability (paragraph 102). Guidance on making the best estimate, including the treatment of variable costs and discounting, is included in ED 72.

Subsequent Measurement

26. ED 72 requires the liability for a transfer expense to be reduced as resources are transferred to the transfer recipient (paragraph 115). Any difference between the carrying amount of the resources transferred and the carrying amount of the liability in respect of the transfer expense without performance obligations is recognized in surplus or deficit in the period in which the liability is settled.

27. At its June 2019 meeting, the IPSASB agreed to include guidance on the subsequent measurement of non-contractual payables in ED 72. ED 72 requires an entity to apply the subsequent measurement requirements in relation to transfer expenses without performance obligations to all non-contractual payables.

Decisions Required

28. The IPSASB is asked whether it supports the recognition principle included in ED 72 as drafted by staff, and in particular that binding arrangements that impose enforceable activities but not performance obligations on transfer recipients do not give rise to an asset for the transfer provider.

29. If the IPSASB decides that enforceable activities can give rise to a liability for the transfer recipient, and that revenue is therefore not recognized immediately, the IPSASB is asked whether it wishes to adopt the alternative approach whereby an expense is only recognized as the transfer recipient performs the performance activities specified in the binding arrangement. This will require the recognition of ‘other resources’ in the statement of financial position.

30. The IPSASB is asked to provide any comments on the text of transfer expenses without performance obligations in ED 72. In particular, the IPSASB is asked if it supports the guidance drafted by staff in respect of:

    (a) Debt forgiveness;

    (b) Transfer expenses without performance obligations made as a series of transfers;

    (c) Transfer expenses without performance obligations subject to appropriations;

    (d) Taxes paid or payable;

    (e) Measurement principle; and

    (f) Subsequent measurement.

Presentation

Questions

1. The IPSASB is asked to provide guidance to staff on the finalization of the presentation and disclosure sections of ED 72, *Transfer Expenses*.

Detail

Background

2. At its March 2019 meeting, the IPSASB instructed staff to review the presentation requirements alongside ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. This paper discusses the requirements in ED 72, and how these relate to the requirements in the other EDs.

Terminology

3. Under the *Conceptual Framework*, presentation covers information selection, information location and information organization. Information may be selected for display or disclosure; information selected for display communicates key messages, while information selected for disclosure makes displayed information more useful by providing detail that will help users to understand the displayed information.

4. The *Conceptual Framework* takes a wide view of presentation, and refers to information being displayed or disclosed. However, the terminology in individual IPSAS has not been updated to be consistent with the *Conceptual Framework* terminology. ED 70, following IFRS 15, *Revenue from Contracts with Customers*, uses the term presentation to mean information displayed on the face of the financial statements, whereas supporting information in the notes is referred to as disclosure. This terminology is also used in most other IPSAS, including IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, on which ED 71 is based.

5. For consistency with other IPSAS, and in particular ED 70 and ED 71, this draft ED also refers to presentation and disclosure. However, in developing this ED, staff have applied the *Conceptual Framework* principles of information selection, information location and information organization.

Comparison of Presentation and Disclosure Requirements with ED 70

6. The Public Sector Performance Obligation Approach (PSPOA) sections of ED 72 are drawn primarily from ED 70, with changes to reflect the different context of ED 72. The primary differences in context are:

   (a) ED 72 deals with the recognition of expenses, not revenue, and therefore reflects the provider's (the customer's) perspective, not the recipient's (the supplier's) perspective.

   (b) The scope of ED 72 covers transfers, and excludes transactions where the provider receives goods or services from the recipient. Such transactions are covered by ED 70 (and are the main transactions envisaged in IFRS 15, *Revenue from Contracts with Customers*, on which ED 70 is based).

7. As well as the text in ED 72 being modified from that in ED 70 to reflect the different circumstances of ED 72, some sections are omitted from ED 72 because they relate only to the transfer recipient (the supplier).

8. The following table explains the differences between the presentation and disclosure requirements in ED 70 and ED 72, other than those explained by the drafting changes discussed in paragraph 6 above. Key issues are shown in bold text.

Coverage	**Paragraphs in ED 70**	**Paragraphs in ED 72**	**Differences and Rationale**
Presentation	104-108	119-123	This section covers the presentation of the binding arrangement asset and liability. An asset for the transfer recipient (ED 70) is a liability for the transfer provider (ED 72); however, the principles used are consistent.
Disclosure objective	109-112	125-128	The objective in ED 72 is extended to include transfer expenses without performance obligations, and excludes the requirement to disclose information about assets recognized from the costs to obtain or fulfill a binding arrangement with a purchaser, which are relevant to a transfer recipient only.
Binding arrangements with purchasers/ transfer expenses with performance obligations	113	129-130	ED 72 includes an initial paragraph covering all transfer expenses; this includes some disclosure requirements relating to transfer expenses without performance obligations. The impairment of assets from transfer expenses with performance obligations are in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*, not IPSAS 41, *Financial Instruments*, as in ED 70.
Disaggregation of revenue / expenses	114-115 AG138-AG140	131-132 AG114-AG116	These paragraphs require revenue or expenses to be disaggregated into categories; examples include type of goods or services, geographical region, type of binding arrangement. **Staff consider this information is important for users of transfer recipient's financial statements, especially where sales are on a commercial basis, but question the need for this information for transfer providers. The IPSASB is asked whether these disclosure requirements should be retained in ED 72 or removed.**
Binding arrangement balances	116-118	133-135	These paragraphs require the disclosure of information about binding arrangement balances. **Staff question whether the more detailed requirements in paragraphs 134 and 135 of ED 72, much of which relates to the performance of the transfer recipient, is**

Coverage	Paragraphs in ED 70	Paragraphs in ED 72	Differences and Rationale
			necessary for the transfer provider. The IPSASB is asked whether these disclosure requirements should be retained in ED 72 or removed.
Transfer recipient's performance obligations	119-120	136	ED 72 omits the disclosure requirements about: when a transfer recipient satisfies its performance obligations; obligations for refunds and returns; warranties; and in respect of circumstances where an entity is compelled by legislation or other governmental policy decisions to satisfy a performance obligation regardless of the purchaser's ability to pay for the goods or services. These disclosures are not relevant to a transfer provider. **ED 72 also requires an entity to disclose how the transfer of goods and services to the third-party beneficiary enables it to meet its service objectives. Staff consider that this is useful information for users of the financial statements.**
Transfer price / consideration allocated to performance obligations	121-123	137-139	Paragraph 138(b) of ED 72 provides a practical expedient that limits the disclosure required where expenses have been recognized using the practical expedient covering, for example, hourly rates. This sub-paragraph will be deleted if the IPSASB decides to remove the practical expedient covering hourly rates (see Agenda Item 9.2.2 above).
Significant judgments	124-127	140-143	ED 72 does not require the disclosure of significant judgments relating to measuring obligations for returns, refunds and other similar obligations, as these are not relevant to the transfer provider.
Assets recognized from the costs to obtain or fulfill a binding arrangement with a purchaser	128-129	N/A	These disclosure requirements are not relevant to a transfer provider and have been omitted.
Practical expedients	130	146	The disclosure requirement in ED 72 includes the practical expedients for both transfer expenses with performance obligations and transfer expenses without performance obligations.

9. The Task Force's considerations of the disclosure requirements in ED 70 are discussed in Agenda Item 7.

10. Should any members wish to compare the text in ED 70 and ED 72, the text of ED 70 is available from staff on request.

Presentation and Disclosure Requirements for Transfers without Performance Obligations

11. ED 72 includes the following presentation and disclosure requirements for transfers without performance obligations:

    (a) An entity is required to present liabilities (with payables identified separately from other liabilities) from transfer expenses without performance obligations separately from other liabilities, either in the statement of financial performance or in the notes (paragraph 124);

    (b) Information about binding arrangements for transfer expenses without performance obligations (paragraph 144), including:

        (i) A reconciliation of the opening and closing balances of liabilities from binding arrangements for transfer expenses without performance obligations;

        (ii) Where a transfer of resources is conditional on a transfer recipient undertaking specified activities, a description of those activities undertaken or to be undertaken;

        (iii) The amount of any liabilities forgiven;

        (iv) Where an entity cannot reliably measure a liability for a transfer expense without performance obligations, an explanation of the nature of the transfer expense and why a reliable measure is not possible; and

        (v) The accounting policies adopted for the recognition of transfer expenses without performance obligations; and

    (c) The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses without performance obligations (paragraph 145).

12. These presentation and disclosure requirements mirror, where appropriate, the requirements in the PSPOA, and are consistent with the requirements in ED 71, allowing for the different requirements in respect of revenue in that ED (see Agenda Item 8).

Decisions Required

13. The IPSASB is asked whether it supports the disclosure requirements relating to transfer expenses with performance obligations as drafted by staff, and, in particular:

    (a) Whether it wishes to retain or remove the disclosure requirements in respect of:

        (i) Disaggregation of expenses; and

        (ii) Detailed requirements relating to binding arrangement balances; and

    (b) Whether it supports the requirement to disclose how the transfer of goods and services to the third-party beneficiary enables the transfer provider to meet its service objectives.

14. The IPSASB is asked whether it supports the disclosure requirements relating to transfer expenses with performance obligations as drafted by staff; and if not, to provide alternative wording.

Exposure Draft 72
[Month] [Year]
Comments due: [Date]

IPSAS®

Proposed International Public Sector Accounting Standard®

Transfer Expenses

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft, *Transfer Expenses*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [Date].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users of the website must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

This Exposure Draft forms part of the IPSASB's project on Non-Exchange Expenses.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about transfer expenses.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

[To be added]

EXPOSURE DRAFT 72, TRANSFER EXPENSES

CONTENTS

Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenditure and cash flows arising from transfer expenses.**

   Paragraphs AG2–AG4 provide additional guidance on meeting the objective.

Scope

2. **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.**

3. **An entity shall apply this [draft] Standard to transfer expenses as defined in this [draft] Standard. This [draft] Standard does not apply to:**

   (a) **Provisions as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets***

   (b) **Collective services and individual services as defined in IPSAS 19;**

   (c) **Social benefits as defined in IPSAS 42, *Social Benefits; and***

   (d) **Income taxes (see the international or national accounting standard dealing with income taxes)*.***

4. Contributions from owners and distributions to owners are defined in IPSAS 1, *Presentation of Financial statements*. Contributions from owners and distributions to owners do not meet the definition of a transfer expense, as defined in this [draft] Standard, for the following reasons.

   (a) Contributions from owners establish a controlling entity's or an investor's financial interest in a 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 entity provides a good, service, or asset to another entity without receiving any good, service, or asset.

   (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 entity provides a good, service, or asset to another entity without receiving any good, service, or asset.

   Consequently, contributions from owners and distributions to owners are outside the scope of this [draft] Standard. An entity shall account for contributions to owners and distributions to owners in accordance with IPSAS 1.

5. A binding arrangement may be partially within the scope of this [draft] Standard and partially within the scope of other Standards.

   (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 71–84 (transfer expenses with performance obligations) or paragraphs 101–113 (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 AG5–AG6 provide additional guidance on the scope of this Standard.

Definitions

6. **The following terms are used in this [draft] Standard with the meanings specified:**

<u>Stand-alone purchase price</u> (of a good or service) is the price at which an entity would purchase a promised good or service[1] separately from a transfer recipient.

The <u>transaction consideration</u> (for a binding arrangement which imposes one or more performance obligations on a transfer recipient) is the amount of consideration to which an entity (the transfer provider) expects to be obligated to pay in exchange for the transfer recipient transferring promised goods or services to a third-party beneficiary.

A <u>transfer expense</u> is a transaction in which an entity provides a good, service, or other asset to another entity without receiving any good, service, or other asset (paragraph AG7 provides additional guidance).

A <u>transfer provider</u> is an entity that provides a good, service, or other asset to another entity without receiving any good, service, or other asset in return.

A <u>transfer provider's binding arrangement asset</u> is an entity's right to have goods or services transferred to a third-party beneficiary in exchange for consideration provided.

A <u>transfer provider's binding arrangement liability</u> is an entity's obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary when that obligation is conditioned on something other than the passage of time (for example, the transfer recipient's future performance).

A <u>transfer recipient</u> is an entity that receives a good, service, or other asset from another entity without providing any good, service, or other asset to that entity (paragraph AG8 provides additional guidance).

7. The following terms are defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*, and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 70):

A <u>binding arrangement</u>;

A <u>contract</u>;

A <u>performance obligation</u>; and

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[1] References to goods and services or to goods or services are to be read as incorporating references to assets. This is because, a transfer recipient will consider any item transferred to a third-party beneficiary to be a good or service, even if in some cases a third-party beneficiary would classify the item as a non-current asset on initial recognition.

A third-party beneficiary.

Paragraphs AG9–AG14 provide additional guidance on binding arrangements. Paragraphs AG15–AG23 provide additional guidance on the enforceability of binding arrangements.

Expenses are defined in IPSAS 1.

Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Transfer Expenses with Performance Obligations

8. **An entity may incur transfer expenses in accordance with a binding arrangement it has entered into with a transfer recipient, which requires the transfer recipient to provide goods or services to a third-party beneficiary. Where the binding arrangement imposes performance obligations, as defined in [draft] IPSAS [X] (ED 70), on the transfer recipient, an entity (the transfer provider) shall recognize and measure the related transfer expenses by applying the Public Sector Performance Obligation Approach in paragraphs 10–88 below.**

Public Sector Performance Obligation Approach

9. To meet the objectives in paragraph 1, this [draft] Standard requires a reporting entity to recognize transfer expenses with performance obligations by applying the following steps:

    (a) Step 1: Identifying the binding arrangement with a transfer recipient (see paragraphs 10–22);

    (b) Step 2: Identifying the transfer recipient's performance obligations in the binding arrangement (see paragraphs 23–31);

    (c) Step 3: Determining the transaction consideration (see paragraphs 46–70);

    (d) Step 4: Allocating the transaction consideration to the transfer recipient's performance obligations in the binding arrangement (see paragraphs 46 and 71–84); and

    (e) Step 5: Recognizing expenses when (or as) the transfer recipient satisfies a performance obligation (see paragraphs 32–45).

Recognition

Identifying the Binding Arrangement (Step 1)

10. **An entity (the transfer provider) shall account for a transfer expense which imposes performance obligations on the transfer recipient that is within the scope of this [draft] Standard only when all of the following criteria are met:**

    (a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;**

    (b) **The entity can identify each party's rights regarding the goods or services to be transferred;**

    (c) **The entity can identify the payment terms for the goods or services to be transferred; and**

(d) **It is probable that the transfer recipient will transfer the goods or services to the third-party beneficiary as specified in the binding arrangement. In evaluating whether the transfer of the goods or services is probable, an entity shall consider only the transfer recipient's ability and intention to transfer the goods or services when they are due.**

Paragraph AG24 provides additional guidance.

11. A binding arrangement may include one or more components that meet the criteria in paragraph 10, and another component or components that do not meet the criteria in paragraph 10. An entity shall recognize and measure such a binding arrangement as follows:

    (a) The component or components of the binding arrangement that meet the criteria in paragraph 10 shall be treated as a separate binding arrangement, and recognized and measured in accordance with paragraphs 10–88; and

    (b) The component or components of the binding arrangement that do not meet the criteria in paragraph 10 shall be treated as a separate binding arrangement for a transfer expense without performance obligations, and recognized and measured in accordance with paragraphs 90–113.

    Paragraphs AG55–AG56 provide guidance on determining the transaction consideration where components of the binding arrangement do not relate to the transfer recipient's performance obligations.

12. A binding arrangement creates enforceable rights and obligations on the parties to the arrangement. Enforceability of the rights and obligations in a binding arrangement is created through legal or equivalent means. Factors that determine enforceability may differ between jurisdictions and some enforcement mechanisms may be outside the legal system. Binding arrangements can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

13. Some binding arrangements with transfer recipients may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this [draft] Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

14. For the purpose of applying this [draft] Standard, a binding arrangement does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

    (a) The entity has not yet paid, and is not yet obligated to pay, consideration to the transfer recipient in exchange for promised goods or services; and

    (b) The transfer recipient has not yet transferred any promised goods or services to a third-party beneficiary.

15. If a binding arrangement with a transfer recipient meets the criteria in paragraph 10 at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a transfer recipient's ability to transfer the promised goods or services deteriorates significantly, an entity would reassess whether it is probable that a third-party beneficiary will receive the goods or services promised in exchange for the consideration.

16. If a binding arrangement imposes performance obligations on a transfer recipient but does not meet the criteria in paragraph 10, an entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 10 are subsequently met.

17. When a binding arrangement that imposes performance obligations on a transfer recipient does not subsequently meet the criteria in paragraph 10, an entity shall recognize a transfer expense in accordance with paragraphs 89–96 below.

Combination of Binding Arrangements

18. An entity shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

    (a) The binding arrangements are negotiated as a package with a single economic objective;

    (b) The amount of consideration to be paid in one binding arrangement depends on the price or performance of the other binding arrangement; or

    (c) The goods or services promised in the binding arrangements (or some goods or services promised in each of the binding arrangements) are a single performance obligation in accordance with paragraphs 23–31.

Modifications to a Binding Arrangement

19. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

20. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in price, an entity shall estimate the change to the transaction consideration

arising from the modification in accordance with paragraphs 50–54 on estimating variable consideration and paragraphs 55–57 on constraining estimates of variable consideration.

21. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

(a) The scope of the binding arrangement increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 27–31); and

(b) The price of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone purchase prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone purchase price of an additional good or service for a discount that the entity receives for repeat purchases.

22. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 21, an entity shall account for the promised goods or services not yet received by the third-party beneficiary at the date of the modification to a binding arrangement (i.e., the remaining promised goods or services) in whichever of the following ways is applicable:

(a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining goods or services are distinct from the goods or services received by the third-party beneficiary on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 23(b)) is the sum of:

(i) The consideration promised to the transfer recipient (including amounts already received by the transfer recipient) that was included in the estimate of the transaction consideration and that had not been recognized as an expense; and

(ii) The consideration promised as part of the modification to a binding arrangement.

(b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction consideration, and on the transfer recipient's progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to expense (either as an increase in or a reduction of expense) at the date of the modification of a binding arrangement (i.e., the adjustment to expense is made on a cumulative catch-up basis).

(c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Identifying Performance Obligations (Step 2)

23. **At the inception of the binding arrangement, an entity (the transfer provider) shall assess the goods or services promised by the transfer recipient in a binding arrangement and shall**

identify as a performance obligation of the transfer recipient each promise to transfer to a third-party beneficiary either:

(a) **A good or service (or a bundle of goods or services) that is distinct; or**

(b) **A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third-party beneficiary (see paragraph 24).**

Paragraphs AG25–AG35 provide additional guidance on identifying performance obligations.

24. A series of distinct goods or services has the same pattern of transfer to the third-party beneficiary if both of the following criteria are met:

(a) Each distinct good or service in the series that the transfer recipient promises to transfer to the third-party beneficiary would meet the criteria in paragraph 35 to be a transfer recipient's performance obligation satisfied over time; and

(b) In accordance with paragraphs 39–40, the same method would be used to measure the transfer recipient's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the third-party beneficiary.

Promises in Transfer Expenses with Performance Obligations

25. A binding arrangement with a transfer recipient generally explicitly states the goods or services that a transfer recipient promises to transfer to a third-party beneficiary. However, the performance obligations identified in a binding arrangement with a transfer recipient may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement with a transfer recipient may also include promises that are implied by a transfer recipient's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the entity (the transfer provider) that the transfer recipient will transfer a good or service to the third-party beneficiary.

26. Performance obligations of the transfer recipient do not include activities that a transfer recipient must undertake to fulfil a binding arrangement unless those activities transfer a good or service to a third-party beneficiary. For example, a transfer recipient may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not transfer a service to a third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a performance obligation of the transfer recipient.

Distinct Goods or Services

27. Depending on the binding arrangement, promised goods or services may include, but are not limited to, the following:

(a) Transfer of goods produced by a transfer recipient to a third-party beneficiary (for example, inventory of a manufacturer);

(b) Transfer of goods purchased by a transfer recipient to a third-party beneficiary (for example, merchandise of a retailer);

(c) Transfer of rights to goods or services purchased by a transfer recipient to a third-party beneficiary (for example, emission allowances purchased and subsequently transferred by a transfer recipient);

(d) A transfer recipient performing a task for a third-party beneficiary that is agreed-upon in the binding arrangement;

(e) A transfer recipient providing a service of standing ready to provide goods or services to third party beneficiaries (for example, paramedics on site at an athletic competition organized by a community group);

(f) A transfer recipient providing a service of arranging for another party to transfer goods or services to a third-party beneficiary (for example, acting as an agent of another party);

(g) A transfer recipient constructing, manufacturing or developing an asset on behalf of a third-party beneficiary; and

(h) A transfer recipient granting licenses (see paragraphs AG72–AG85).

28. A good or service that is promised by a transfer recipient is distinct if both of the following criteria are met:

(a) The third-party beneficiary can receive economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to the third-party beneficiary (i.e., the good or service is capable of being distinct); and

(b) The transfer recipient's promise to transfer the good or service to the third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

29. A third-party beneficiary can receive economic benefits or service potential from a good or service in accordance with paragraph 28(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a third-party beneficiary may be able to receive the economic benefits or service potential from a good or service on its own. For other goods or services, a third-party beneficiary may be able to receive the economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the transfer recipient or another entity) or a resource that the third-party beneficiary has already obtained from the transfer recipient (including goods or services that the transfer recipient will have already transferred to the third-party beneficiary under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the third-party beneficiary can receive the economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the transfer recipient regularly provides a good or service separately would indicate that a third-party beneficiary can receive the economic benefits or service potential from the good or service on its own or with other readily available resources.

30. In assessing whether an transfer recipient's promises to transfer goods or services to the third-party beneficiary are separately identifiable in accordance with paragraph 28(b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a third-party beneficiary are not separately identifiable include, but are not limited to, the following:

(a) The transfer recipient provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the entity (the transfer provider) has entered into binding arrangements. In other words, the transfer recipient is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the entity (the transfer provider). A combined output or outputs might include more than one phase, element or unit.

(b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.

(c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the transfer recipient would not be able to fulfil its promise by transferring each of the goods or services independently.

31. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a binding arrangement as a single performance obligation of the resource recipient.

Satisfaction of Performance Obligations (Step 5)

32. **An entity shall recognize an expense when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a third-party beneficiary. An asset is transferred when (or as) the third-party beneficiary obtains control of that asset.**

Paragraphs AG36–AG54 provide additional guidance on the satisfaction of performance obligations.

33. For each performance obligation identified in accordance with paragraphs 23–31, an entity shall determine at the inception of the binding arrangement whether the transfer recipient satisfies the performance obligation over time (in accordance with paragraphs 35–37) or satisfies the performance obligation at a point in time (in accordance with paragraph 38). If the transfer recipient does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

34. Goods and services are assets, even if only momentarily, when they are received and used by the third-party beneficiary (as in the case of many services). Control of an asset refers to the ability of the third-party beneficiary to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits or service potential from, an asset. The economic benefits or service potential embodied in the asset are the potential cash flows (inflows or savings in outflows), or the capacity to provide services that contribute to achieving the third-party beneficiary's objectives, that can be obtained directly or indirectly in many ways, such as by:

(a) Using the asset to produce goods or provide services (including public services);

(b) Using the asset to enhance the value of other assets;

(c) Using the asset to settle liabilities or reduce expenses;

(d) Selling or exchanging the asset;

(e) Pledging the asset to secure a loan; and

(f) Holding the asset.

Performance Obligations Satisfied Over Time

35. An entity (the transfer provider) recognizes an expense over time when the transfer recipient satisfies a performance obligation over time. A transfer recipient transfers control of a good or service over time and, therefore, satisfies a performance obligation over time, if one of the following criteria is met:

(a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG37–AG38);

(b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that the third-party beneficiary controls as the asset is created or enhanced (see paragraph AG39); or

(c) The transfer recipient's performance does not create an asset with an alternative use to the transfer recipient (see paragraph 36) and the transfer recipient has an enforceable right to payment for performance completed to date (see paragraph 37).

36. An asset created by a transfer recipient's performance does not have an alternative use to the transfer recipient if the transfer recipient is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the transfer recipient is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the transfer recipient's alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the performance obligation. Paragraphs AG40–AG42 provide guidance for assessing whether an asset has an alternative use to a transfer recipient.

37. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether the transfer recipient has an enforceable right to payment for performance completed to date in accordance with paragraph 35(c). The transfer recipient's right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the transfer recipient must be entitled to an amount that at least compensates it for performance completed to date if the binding arrangement is terminated by the entity (the transfer provider) or another party for reasons other than the transfer recipient's failure to perform as promised. Paragraphs AG43–AG47 provide guidance for assessing the existence and enforceability of a transfer recipient's right to payment and whether a transfer recipient's right to payment would entitle it to be paid for its performance completed to date.

Performance Obligations Satisfied at a Point in Time

38. An entity (the transfer provider) recognizes an expense at a point in time when the transfer recipient satisfies a performance obligation at a point in time. If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, a transfer recipient satisfies the performance obligation at a point in time. To determine the point in time at which a third-party beneficiary obtains control of a promised asset and the transfer recipient satisfies a performance obligation, the entity (the transfer

provider) shall consider the requirements for control in paragraphs 32–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The transfer recipient has a present right to payment for the asset—if an entity (the transfer provider) is presently obliged to pay for an asset, then that may indicate that the third-party beneficiary has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.

(b) The third-party beneficiary has legal title to the asset—legal title may indicate which party has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that a third-party beneficiary has obtained control of the asset. If a transfer recipient recipient retains legal title solely as protection against the entity's (the transfer provider's) failure to pay, those rights of the transfer recipient would not preclude the third-party beneficiary from obtaining control of an asset.

(c) The transfer recipient has transferred physical possession of the asset—the third-party beneficiary's physical possession of an asset may indicate that the third-party beneficiary has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some bill-and-hold arrangements, the transfer recipient may have physical possession of an asset that the third-party beneficiary controls. Paragraphs AG86–AG89 provide guidance on accounting for bill-and-hold arrangements.

(d) The third-party beneficiary has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the third-party beneficiary may indicate that the third-party beneficiary has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation of the transfer recipient in addition to the performance obligation to transfer the asset. For example, a transfer recipient may have transferred control of an asset to a third-party beneficiary but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The third-party beneficiary has accepted the asset—the third-party beneficiary's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits and service potential from, the asset. To evaluate the effect of the acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG90–AG91.

Measuring Progress Towards Complete Satisfaction of a Performance Obligation

39. For each performance obligation satisfied over time by a transfer recipient in accordance with paragraphs 35–37, an entity (the transfer provider) shall recognize an expense over time by measuring the transfer recipient's progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict a transfer recipient's performance in

transferring control of goods or services promised to the third-party beneficiary (i.e., the satisfaction of the transfer recipient's performance obligation).

40. An entity (the transfer provider) shall apply a single method of measuring the transfer recipient's progress for each of the transfer recipient's performance obligations satisfied over time and the entity (the transfer provider) shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for Measuring Progress

41. Appropriate methods for an entity (a transfer provider) to measure the transfer recipient's progress are usually output methods. Input methods may also be used where such information is both available to the entity (the transfer provider) and relevant to the assessment of an expense. Paragraphs AG48–AG54 provide guidance for using output methods and input methods to measure a transfer recipient's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the transfer recipient promised to transfer to the third-party beneficiary.

42. When applying a method for measuring a transfer recipient's progress, an entity shall exclude from the measure of progress any goods or services for which the transfer recipient does not transfer control to a third-party beneficiary. Conversely, an entity shall include in the measure of progress any goods or services for which the transfer recipient does transfer control to a third-party beneficiary when satisfying that performance obligation.

43. As circumstances change over time, an entity (the transfer provider) shall update its measure of a transfer recipient's progress to reflect any changes in the outcome of the transfer recipient's performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Reasonable Measures of Progress

44. An entity (the transfer provider) shall recognize an expense for a transfer recipient's performance obligation satisfied over time only if the entity can reasonably measure the transfer recipient's progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure a transfer recipient's progress towards complete satisfaction of a performance obligation if the entity (the transfer provider) lacks reliable information that would be required to apply an appropriate method of measuring progress.

45. In some circumstances (for example, in the early stages of a binding arrangement), an entity (the transfer provider) may not be able to reasonably measure the outcome of a transfer recipient's performance obligation. The entity shall not recognize an expense until such time that it can reasonably measure the outcome of the transfer recipient's performance obligation.

Measurement

46. **When (or as) a transfer recipient satisfies a performance obligation, an entity (the transfer provider) shall recognize as an expense the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 55–57) that is allocated to that performance obligation.**

Determining the Transaction Consideration (Step 3)

47. An entity (a transfer provider) shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the value of the resources (i.e., the consideration) that the entity expects to transfer to the transfer recipient, in exchange for transfer recipient transferring the promised goods or services to the third-party beneficiary. The consideration promised in a binding arrangement with performance obligations may include fixed amounts, variable amounts, or both.

48. The nature, timing and amount of consideration promised by an entity (a transfer provider) affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:

    (a) Variable consideration (see paragraphs 50–54 and 58);

    (b) Constraining estimates of variable consideration (see paragraphs 55–57);

    (c) The existence of a significant financing component in the binding arrangement (see paragraphs 59–64);

    (d) Non-cash consideration (see paragraphs 65–67);

    (e) Consideration receivable by an entity (see paragraphs 68–70); and

49. For the purpose of determining the transaction consideration, an entity (a transfer provider) shall assume that the goods or services will be transferred by the transfer recipient to the third-party beneficiary as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

50. If the consideration promised in a binding arrangement includes a variable amount, an entity (a transfer provider) shall estimate the amount of consideration to which the transfer recipient will be entitled (and which the entity will be obligated to pay) in exchange for transferring the promised goods or services to the third-party beneficiary.

51. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if a transfer recipient's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was provided with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

52. The variability relating to the consideration promised by an entity (the transfer provider) may be explicitly stated in the binding arrangement. In addition to the terms of the binding arrangement, the promised consideration is variable if either of the following circumstances exists:

    (a) The entity (the transfer provider) has a valid expectation arising from a transfer recipient's customary practices, published policies or specific statements that the transfer recipient will accept an amount of consideration that is less than the price stated in the binding arrangement. That is, it is expected that the transfer recipient will offer a price concession. Depending on the jurisdiction, sector or transfer recipient this offer may be referred to as a discount, rebate, refund or credit.

(b) Other facts and circumstances indicate that the transfer recipient's intention, when entering into the binding arrangement with the entity (the transfer provider), is to offer a price concession to the entity.

53. An entity (the transfer provider) shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration which it will be required to pay to the transfer recipient:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, a transfer recipient either achieves a performance bonus or does not).

54. An entity (a transfer provider) shall apply one method consistently throughout the binding arrangement when estimating the effect of an uncertainty on an amount of variable consideration which the entity will be required to pay to the transfer recipient. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal assessment process.

Constraining Estimates of Variable Consideration

55. An entity (the transfer provider) shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

56. In assessing whether it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity (a transfer provider) shall consider both the likelihood and the magnitude of the expense reversal. Factors that could increase the likelihood or the magnitude of an expense reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

(c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The transfer recipient has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

(e) The binding arrangement has a large number and broad range of possible consideration amounts.

57. An entity (the transfer provider) shall apply paragraph AG83 to account for an expense in the form of a usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

58. At the end of each reporting period, an entity (the transfer provider) shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity (the transfer provider) shall account for changes in the transaction consideration in accordance with paragraphs 85–88.

The Existence of a Significant Financing Component in the Binding Arrangement

59. In determining the transaction consideration, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the entity (the transfer provider) or the transfer recipient with a significant benefit of financing the transfer of goods or services to the third-party beneficiary. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

60. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity (the transfer provider) to recognize an expense at an amount that reflects the price that the entity would have paid for the promised goods or services if the entity had paid cash for those goods or services when (or as) they transfer to the third-party beneficiary (i.e., the cash price). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

(a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services; and

(b) The combined effect of both of the following:

(i) The expected length of time between when the transfer recipient transfers the promised goods or services to the third-party beneficiary and when the entity (the transfer provider) pays for those goods or services; and

(ii) The prevailing interest rates in the relevant market.

61. Notwithstanding the assessment in paragraph 60, a binding arrangement with a transfer recipient would not have a significant financing component if any of the following factors exist:

(a) The entity (the transfer provider) paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the entity (the transfer provider) or a third-party beneficiary.

(b) A substantial amount of the consideration promised by the entity (the transfer provider) is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the entity (the transfer provider) or the transfer recipient (for example, if the consideration is a third-party beneficiary usage-based royalty).

(c) The difference between the promised consideration and the cash price of the good or service (as described in paragraph 60) arises for reasons other than the provision of finance to either the entity (the transfer provider) or the transfer recipient, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity (the transfer provider) or the transfer recipient with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

62. As a practical expedient, an entity (the transfer provider) need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the transfer recipient transfers a promised good or service to a third-party beneficiary and when the entity (the transfer provider) pays for that good or service will be one year or less.

63. To meet the objective in paragraph 60 when adjusting the promised amount of consideration for a significant financing component, an entity (the transfer provider) shall use the discount rate that would be reflected in a separate financing transaction between the entity and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the entity (the transfer provider) or the transfer recipient, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the entity (the transfer provider) would pay in cash for the goods or services when (or as) they transfer to a third-party beneficiary. After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances.

64. An entity shall present the effects of financing (interest expense or interest revenue) separately from transfer expenses with performance obligations in the statement of financial performance. Interest expense or interest revenue is recognized only to the extent that a transfer provider's binding arrangement liability (or payable) or a transfer provider's binding arrangement asset is recognized in accounting for a transfer expense with performance obligations.

Non-Cash Consideration

65. To determine the transaction consideration for binding arrangements in which the entity (the transfer provider) promises consideration in a form other than cash, the entity shall measure the non-cash consideration (or promise of non-cash consideration) at the carrying amounts of the assets transferred or to be transferred.

66. If the carrying amount of the asset is not known, for example because the entity (the transfer provider) has promised to provide services, and the costs of those services will not be known until the services have been provided, the entity shall apply paragraphs 50–57 in measuring the non-cash consideration.

67. If the entity (the transfer provider) contributes goods or services (for example, materials, equipment or labor) to facilitate a transfer recipient's fulfilment of the binding arrangement, the entity (the transfer provider) shall assess whether it loses control of those contributed goods or services. If so, the entity (the transfer provider) shall account for the contributed goods or services as non-cash consideration transferred to the transfer recipient.

Consideration Receivable by a Transfer Provider

68. Consideration receivable by an entity (a transfer provider) includes cash amounts that a transfer recipient pays, or expects to pay, to the entity. Consideration receivable by an entity (a transfer provider) also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the transfer recipient. An entity shall account for consideration receivable from a transfer recipient as a reduction of the transaction consideration and, therefore, of an expense unless the receipt by the entity (the transfer provider) is in exchange for a distinct good or service (as described in paragraphs 27–31) that the entity (the transfer provider) transfers to the transfer recipient. If the consideration receivable by an entity (a transfer provider) includes a variable amount, the entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–57.

69. If consideration receivable by an entity (a transfer provider) is a payment for a distinct good or service transferred to a transfer recipient, then the entity shall account for the sale of the good or service in accordance with [draft] IPSAS [X] (ED 70). However, if the amount of consideration receivable by the entity (the transfer provider) exceeds the carrying amount of the distinct good or service that the entity transfers to the transfer recipient (or, where the carrying amount is not known, the estimated cost of the distinct good or service), then the entity shall account for such an excess as a reduction of the transaction consideration.

70. Accordingly, if consideration receivable by an entity (a transfer provider) is accounted for as a reduction of the transaction consideration, an entity shall recognize the reduction of an expense when (or as) the later of either of the following events occurs:

    (a) The entity recognizes an expense for the receipt by the third-party beneficiary of the related goods or services from the transfer recipient; and

    (b) The transfer recipient pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the transfer recipient's customary practices.

Allocating the Transaction Consideration to Performance Obligations (Step 4)

71. **The objective when allocating the transaction consideration is for an entity (the transfer provider) to allocate the transaction consideration to each of the transfer recipient's performance obligations (or distinct goods or services) in an amount that depicts the cost which the entity (the transfer provider) expects to incur in exchange for the promised goods or services being transferred to a third-party beneficiary.**

72. To meet the allocation objective, an entity (a transfer provider) shall allocate the transaction consideration to each of the transfer recipient's performance obligations identified in the binding arrangement on a relative stand-alone purchase price basis in accordance with paragraphs 74–78, except as specified in paragraphs 79–81 (for allocating discounts) and paragraphs 82–84 (for allocating consideration that includes variable amounts).

73. Paragraphs 74–84 do not apply if a binding arrangement only imposes one performance obligation on the transfer recipient. However, paragraphs 82–84 may apply if a transfer recipient promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 23(b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Purchase Prices

74. To allocate the transaction consideration to each of the transfer recipient's performance obligations on a relative stand-alone purchase price basis, an entity (a transfer provider) shall determine the stand-alone purchase price at the inception of the binding arrangement of the distinct good or service underlying each of the transfer recipient's performance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone purchase prices.

75. The stand-alone purchase price is the price at which an entity (the transfer provider) would purchase a promised good or service to be transferred to a third-party beneficiary separately from a transfer recipient. The best evidence of a stand-alone purchase price is the observable price of a good or service when the entity (the transfer provider) purchases that good or service separately in similar circumstances and from similar transfer recipients. In a binding arrangement, stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone purchase price of that good or service.

76. If a stand-alone purchase price is not directly observable, an entity (a transfer provider) shall estimate the stand-alone purchase price at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 71. When estimating a stand-alone purchase price, an entity (the transfer provider) shall consider all information (including entity-specific factors, information about the transfer recipient or class of transfer recipient, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

77. Suitable methods for estimating the stand-alone purchase price of a good or service include, but are not limited to, the following:

(a) Adjusted market assessment approach—an entity (the transfer provider) could evaluate the market in which it purchases goods or services to be transferred to third-party beneficiaries and estimate the price that a transfer recipient in that market would be willing to accept for those goods or services. That approach might include referring to prices from the other entities providing similar goods or services.

(b) Expected cost approach—where an entity (a transfer provider) produces equivalent goods or services itself as well as purchasing those goods and services from transfer recipients, the entity (the transfer provider) may be able to forecast its expected costs of satisfying a performance obligation, and adjust that cost for the expected differences between producing the goods or services directly and purchasing them from a transfer recipient.

(c) Residual approach—an entity may estimate the stand-alone purchase price by reference to the total transaction consideration less the sum of the observable stand-alone purchase prices of other goods or services promised in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 76, the stand-alone purchase price of a good or service only if one of the following criteria is met:

(i) The entity (the transfer provider) purchases the same good or service from different transfer recipients (at or near the same time) for a broad range of amounts (i.e., the purchase price is highly variable because a representative stand-alone purchase price is not discernible from past transactions or other observable evidence); or

(ii) The entity (the transfer provider) has not previously purchased the good or service on a stand-alone basis (i.e., the purchase price is uncertain).

78. A combination of methods may need to be used to estimate the stand-alone purchase prices of the goods or services promised by the transfer recipient in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone purchase prices. For example, an entity (a transfer provider) may use a residual approach to estimate the aggregate stand-alone purchase price for those promised goods or services with highly variable or uncertain stand-alone purchase prices and then use another method to estimate the stand-alone purchase prices of the individual goods or services relative to that estimated aggregate stand-alone purchase price determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone purchase price of each promised good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone purchase prices would be consistent with the allocation objective in paragraph 71 and the requirements for estimating stand-alone purchase prices in paragraph 76.

Allocation of a Discount

79. An entity (a transfer provider) receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone purchase prices of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity (the transfer provider) has observable evidence in accordance with paragraph 80 that the entire discount relates to only one or more, but not all, of the transfer recipient's performance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all performance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity (the transfer provider) allocating the transaction consideration to each of the transfer recipient's performance obligations on the basis of the relative stand-alone purchase prices of the underlying distinct goods or services.

80. An entity (the transfer provider) shall allocate a discount entirely to one or more, but not all, of the transfer recipient's performance obligations in the binding arrangement if all of the following criteria are met:

(a) The entity (the transfer provider) regularly purchases each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;

(b) The entity (the transfer provider) also regularly purchases on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone purchase prices of the goods or services in each bundle; and

(c) The discount attributable to each bundle of goods or services described in paragraph 80(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the transfer recipient's performance obligation (or performance obligations) to which the entire discount in the binding arrangement belongs.

81. If a discount is allocated entirely to one or more of the transfer recipient's performance obligations in the binding arrangement in accordance with paragraph 80, an entity (the transfer provider) shall

allocate the discount before using the residual approach to estimate the stand-alone purchase price of a good or service in accordance with paragraph 77(c).

Allocation of Variable Consideration

82. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

(a) One or more, but not all, of the transfer recipient's performance obligations in the binding arrangement (for example, a bonus may be contingent on a third-party beneficiary receiving a promised good or service within a specified period of time); or

(b) One or more, but not all, distinct goods or services promised by the transfer recipient in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 23(b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

83. An entity (the transfer provider) shall allocate a variable amount (and subsequent changes to that amount) entirely to one of a transfer recipient's performance obligations or to a distinct good or service that forms part of a transfer recipient's single performance obligation in accordance with paragraph 23(b) if both of the following criteria are met:

(a) The terms of a variable payment relate specifically to the transfer recipient's efforts to satisfy the performance obligation or transfer the distinct good or service to a third-party beneficiary (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service to a third-party beneficiary beneficiary); and

(b) Allocating the variable amount of consideration entirely to one of the transfer recipient's performance obligations or the distinct good or service is consistent with the allocation objective in paragraph 71 when considering all of the performance obligations and payment terms in the binding arrangement.

84. The allocation requirements in paragraphs 71–81 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 83.

Changes in the Transaction Consideration

85. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity expects to pay in exchange for the promised goods or services to be transferred to third-party beneficiaries.

86. An entity (the transfer provider) shall allocate to the transfer recipient's performance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone purchase prices after the inception of the binding arrangement. Amounts allocated to a satisfied performance obligation shall be recognized as an expense, or as a reduction of an expense, in the period in which the transaction consideration changes.

87. An entity (a transfer provider) shall allocate a change in the transaction consideration entirely to one or more, but not all, of the transfer recipient's performance obligations or distinct goods or services

promised in a series that forms part of a single performance obligation in accordance with paragraph 23(b) only if the criteria in paragraph 83 on allocating variable consideration are met.

88. An entity (the transfer provider) shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 19–22. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 85–87 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

   (a) An entity (the transfer provider) shall allocate the change in the transaction consideration to the transfer recipient's performance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 22(a).

   (b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 21, an entity (the transfer provider) shall allocate the change in the transaction consideration to the transfer recipient's performance obligations in the modified binding arrangement (i.e., the transfer recipient's performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Transfer Expenses without Performance Obligations

89. **An entity (a transfer provider) may incur transfer expenses in accordance with a binding arrangement it has entered into with a transfer recipient, where the binding arrangement does not impose performance obligations, as defined in [draft] IPSAS [X] (ED 70), on the transfer recipient (e.g., the binding arrangement does not require the transfer recipient to provide goods or services to a third-party beneficiary). Alternatively, an entity (a transfer provider) may incur transfer expenses without the existence of a binding arrangement. In both cases, the entity (the transfer provider) shall recognize and measure transfer expenses without performance obligations in accordance with paragraphs 90–117 below.**

Recognition

90. **An entity (a transfer provider) shall recognize a transfer expense without performance obligations at the earlier of the following dates:**

   (a) **When the entity (the transfer provider) has a present obligation to transfer resources to a transfer recipient. In such cases, the entity (the transfer provider) shall recognize a liability representing its obligation to transfer the resources; and**

   (b) **When the entity (the transfer provider) ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.**

91. For a present obligation to exist, the transfer recipient must be able to enforce the transfer of resources by the entity (the transfer provider), i.e., there must be a binding arrangement even though that agreement does not impose performance obligations (as defined in [draft] IPSAS [X] (ED 70)) on the transfer recipient. For a binding arrangement to exist, the following conditions must be met:

(a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;

(b) The entity can identify each party's rights regarding the obligations to be performed;

(c) The entity can identify the payment terms for the contribution to be transferred; and

(d) It is probable that the transfer recipient will perform its obligations as specified in the binding arrangement. In evaluating whether the performance of the transfer recipient's obligations is probable, an entity shall consider only the transfer recipient's ability and intention to perform its obligations in accordance with the terms of the binding arrangement.

92. Transfers to be made outside of a binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the entity (the transfer provider) transferring the resources. Paragraphs AG15–AG23 provide additional guidance on enforceability.

93. For the purpose of applying this [draft] Standard, where a transfer expense without performance obligations is to be made under a binding arrangement, the transfer expense without performance obligations does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

(a) The entity (the transfer provider) has not yet transferred, and is not yet obligated to transfer, any resources to the transfer recipient; and

(b) The transfer recipient has not yet performed any activities that it agreed to perform as part of the binding arrangement.

94. **An entity (a transfer provider) may waive their right to collect a debt owed by another entity (a transfer recipient), effectively canceling the debt. The entity (the transfer provider) shall recognize a transfer expense without performance obligations at the date that it derecognizes the financial asset, or portion of the financial asset, that it has waived its right to collect.**

95. Where a controlling entity (a transfer provider) forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraph 4. In accordance with paragraph 4, contributions from owners are outside the scope of this [draft] Standard.

Transfer Expenses without Performance Obligations Made as a Series of Transfers

96. Transfer expenses without performance obligations may be made as a series of transfers of resources, for example where the entity enters into a binding arrangement to provide annual funding over a three-year period. An entity applies the requirements of paragraphs 90–93 to each transfer of resources separately to determine whether an expense is to be recognized.

Transfer Expenses without Performance Obligations Subject to Appropriations

97. Transfer expenses without performance obligations that are subject to appropriations shall not be recognized as a liability prior to the funds being appropriated. Following the appropriation, an entity (a transfer provider) applies paragraphs 90–96 in determining when to recognize an expense. Paragraphs AG98–AG99 provide additional guidance on appropriations.

Modifications to a Binding Arrangement

98. A modification to a binding arrangement is a change in the scope or price (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this [draft] Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

99. An entity (a transfer provider) shall account for modifications to a binding arrangement for transfer expenses without performance obligations as follows:

    (a) No adjustment is recognized for resources already transferred by the entity (the transfer provider) to the transfer recipient and for which an expense has been recognized; and

    (b) An entity (a transfer provider) shall reassess the extent to which it has a present obligation to transfer resources to the transfer recipient at the date of the modification, based on the terms of the modified binding arrangement. Any difference between the present obligation based on the terms of the modified binding arrangement and the amount previously recognized as a liability shall be accounted for as an adjustment to expenses at the date of the modification.

Taxes Paid or Payable

100. For the purpose of applying this [draft] Standard, an obligation to pay tax to a public sector entity is a transfer expense without performance obligations. However, as a result of the statutory nature of taxation, an entity recognizes an asset for taxes paid in advance of the entity having a present obligation to pay the taxes, notwithstanding the requirements of paragraph 90. Paragraphs AG100–AG107 provide guidance on accounting for taxes paid or payable.

Measurement

Initial Measurement

101. **Where an entity (a transfer provider) recognizes a transfer expense without performance obligations at the date it transfers the resources to the transfer recipient, the entity shall measure the expense at the carrying amount of the resources transferred.**

102. **Where an entity (a transfer provider) recognizes a transfer expense without performance obligations prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the entity (the transfer provider) will incur in settling the liability. The costs that the entity will incur in settling the liability may include fixed costs, variable costs, or both.**

103. When determining the costs that the entity (the transfer provider) will incur in settling the liability, an entity shall consider the effects of all of the following:

    (a) Variable costs;

    (b) Constraining estimates of variable costs;

(c) Time value of money; and

(d) Non-cash transfers.

Variable Costs

104. A transfer expense without performance obligations may include variable costs where, for example, the entity (the transfer provider) has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. An entity's (a transfer provider's) best estimate of the amount it will incur to settle the liability reflects the entity's assessment of the costs that the transfer recipient is likely to incur.

105. An entity (a transfer provider) shall estimate an amount of variable costs by using either of the following methods, depending on which method the entity expects to better predict the amount of costs it will incur:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible cost amounts. An expected value may be an appropriate estimate of the amount of variable costs if an entity (a transfer provider) has a large number of binding arrangements with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible cost amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable costs if the binding arrangement has only two possible outcomes (for example, a transfer recipient either purchases a new asset or refurbishes an existing asset).

106. For the purpose of determining the best estimate of the costs it will incur in settling the liability, an entity (a transfer provider) shall assume that the transfer recipient will carry out the specified activities as promised in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled or modified.

Constraining Estimates of Variable Consideration

107. Where an entity's (a transfer provider's) best estimate of the amount it will incur to settle the liability includes an element of variable consideration in accordance with paragraph 105, that element shall be included in the entity's (the transfer provider's) best estimate only to the extent that it is highly probable that a significant reversal in the amount of cumulative expense recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Time Value of Money

108. An entity (a transfer provider) shall adjust the promised amount of resources to be transferred to the transfer recipient for the effects of the time value of money if the timing of payments agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the transfer recipient with a significant benefit of financing the activities the transfer provider has agreed to perform. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the payment terms agreed to by the parties to the binding arrangement.

109. An entity (a transfer provider) shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including the combined effect of both of the following:

   (a) The expected length of time between when the transfer recipient performs the activities it has promised to perform and when the entity (the transfer provider) transfers the promised resources; and

   (b) The prevailing interest rates in the relevant market.

110. To meet the objective in paragraph 109 when adjusting the promised transfer or resources for a significant financing component, an entity (a transfer provider) shall use the discount rate that would be reflected in a separate financing transaction between the entity and the transfer recipient at the inception of the binding arrangement. That rate would reflect the credit characteristics of the transfer recipient, as well as any collateral or security provided by the transfer recipient. After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances.

111. An entity shall present the effects of financing (interest expense) separately from transfer expenses without performance obligations in the statement of financial performance. Interest expense is recognized only to the extent that a liability is recognized in accounting for a transfer expense without performance obligations.

112. As a practical expedient, an entity need not adjust the expense and liability for the effects of the time value of money if the entity expects, at the inception of the binding arrangement, that the period between when the entity recognizes a liability and when the entity transfers the resources to settle that liability will be one year or less.

Non-Cash Transfers

113. Where the resources transferred are non-cash assets, an entity (a transfer provider) does not revalue the assets prior to derecognizing those assets.

Debt Forgiveness

114. Where an entity (a transfer provider) forgives debt of a transfer recipient, the expense is measured at the carrying amount of the debt forgiven.

Subsequent Measurement

115. **The liability for a transfer expense without performance obligations shall be reduced as resources are transferred to the transfer recipient. Any difference between the carrying amount of the resources transferred and the carrying amount of the liability in respect of the transfer expense without performance obligations is recognized in surplus or deficit in the period in which the liability is settled.**

116. Where a liability is discounted in accordance with paragraph 108, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.

117. Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs that the entity (the transfer provider) will incur in settling the liability.

Subsequent Measurement of Other Statutory Payables.

118. Where an entity 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 6, an entity apply the principles in paragraphs 115–117 to the measurement of that payable after initial recognition, except where the payable is within the scope of another Standard, in which case the entity shall apply the measurement requirements in that Standard.

Presentation

Transfer Expenses with Performance Obligations

119. **When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a transfer provider's binding arrangement asset or a transfer provider's binding arrangement liability, depending on the relationship between the transfer recipient's performance and the entity's (the transfer provider's) payment. An entity shall present any unconditional obligations to pay consideration separately as a payable.**

120. If an entity (the transfer provider) pays consideration, or has an obligation to pay an amount of consideration that is unconditional (i.e., a payable), before the transfer recipient transfers a good or service to the third-party beneficiary, the entity (the transfer provider) shall present the binding arrangement as a transfer provider's binding arrangement asset when the payment is made or the payment is due (whichever is earlier). A transfer provider's binding arrangement asset is an entity's (a transfer provider's) right to have the goods or services transferred to a third-party beneficiary for which the transfer recipient has received consideration (or an amount of consideration is due) from the entity (the transfer provider). An entity shall assess a transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

121. If a transfer recipient performs by transferring goods or services to a third-party beneficiary before the entity (the transfer provider) pays consideration or before payment is due, the entity (the transfer provider) shall present the binding arrangement as a transfer provider's binding arrangement liability, excluding any amounts presented as a payable. A transfer provider's binding arrangement liability is an entity's (a transfer provider's) obligation to pay consideration in exchange for goods or services that the transfer recipient has transferred to a third-party beneficiary.

122. A payable is an entity's (a transfer provider's) obligation to pay consideration that is unconditional. An obligation to pay consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity (a transfer provider) would recognize a payable if it has a present obligation to make payment even though that amount may be subject to refund in the future. An entity shall account for a payable in accordance with IPSAS 41, *Financial Instruments*.

123. This [draft] Standard uses the terms 'transfer provider's binding arrangement asset' and 'transfer provider's binding arrangement liability' but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a transfer provider's binding arrangement liability, the entity shall provide sufficient

information for a user of the financial statements to distinguish between payables and transfer provider's binding arrangement liabilities.

Transfer Expenses without Performance Obligations

124. An entity shall present liabilities from transfer expenses without performance obligations separately from other liabilities, either in the statement of financial performance or in the notes. An entity shall identify payables separately from other liabilities arising from transfer expenses without performance obligations.

Disclosure

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

    (a) **Expenses from transfer expenses (see paragraph 129);**

    (b) **Binding arrangements for transfer expenses with performance obligations (see paragraphs 130–139);**

    (c) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses with performance obligations (see paragraphs 140–143);**

    (d) **Binding arrangements for transfer expenses without performance obligations (see paragraph 144); and**

    (e) **The significant judgments, and changes in the judgments, made in applying this [draft] Standard to those binding arrangements for transfer expenses without performance obligations (see paragraph 145).**

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

127. An entity need not disclose information in accordance with this [draft] Standard if it has provided the information in accordance with another Standard.

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

Transfer Expenses

129. An entity shall disclose all of the following amounts for the reporting period, unless those amounts are presented in the statement of financial performance separately from its other expenses:

    (a) Expenses recognized from binding arrangements for transfer expenses with performance obligations by major classes;

(b) Expenses recognized from binding arrangements for transfer expenses without performance obligations by major classes; and

(c) Expenses recognized from transfer expenses without binding arrangements by major classes.

Transfer Expenses with Performance Obligations

130. An entity shall disclose any impairment losses recognized in accordance with IPSAS 21 on any transfer provider's binding arrangement assets (i.e., rights to have goods or services transferred to a third-party beneficiary), which the entity shall disclose separately from other impairment losses from other binding arrangements.

Disaggregation of Expenses

131. An entity shall disaggregate expenses recognized from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expense and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG114–AG116 when selecting the categories to use to disaggregate expenses.

132. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated expenses (in accordance with paragraph 131) and expense information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

133. An entity shall disclose all of the following:

(a) The opening and closing balances of transfer provider's binding arrangement assets, payables and transfer provider's binding arrangement liabilities from binding arrangements for transfer expenses with performance obligations, if not otherwise separately presented or disclosed;

(b) Expenses recognized in the reporting period that were included in the transfer provider's binding arrangement asset balance at the beginning of the period; and

(c) Expenses recognized in the reporting period from performance obligations satisfied (or partially satisfied) by the transfer recipient in previous periods (for example, changes in transaction consideration).

134. An entity shall explain how the timing of satisfaction of performance obligations by the transfer recipient (see paragraph 136(a)) relates to the typical timing of payment (see paragraph 136(b)) and the effect that those factors have on the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances. The explanation provided may use qualitative information.

135. An entity shall provide an explanation of the significant changes in the transfer provider's binding arrangement asset and the transfer provider's binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of transfer provider's binding arrangement assets and transfer provider's binding arrangement liabilities include any of the following:

(a) Changes due to public sector combinations;

(b) Cumulative catch-up adjustments to expense that affect the corresponding transfer provider's binding arrangement asset or transfer provider's binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

(c) Impairment of a transfer provider's binding arrangement asset;

(d) A change in the time frame for an obligation to pay consideration to become unconditional (i.e., for a transfer provider's binding arrangement liability to be reclassified to a payable); and

(e) A change in the time frame for a performance obligation of the transfer recipient to be satisfied (i.e., for the recognition of an expense arising from a transfer provider's binding arrangement asset).

Transfer Recipient's Performance Obligations

136. An entity (a transfer provider) shall disclose information about the transfer recipient's performance obligations in its binding arrangements for transfer expenses with performance obligations, including a description of all of the following:

(a) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 55–57);

(b) The nature of the goods or services that have been or will be transferred to the third-party beneficiary; and

(c) How the transfer of those goods and services to the third-party beneficiary enables the entity (the transfer provider) to meet its service objectives.

Transaction Consideration Allocated to the Resource Recipient's Remaining Performance Obligations

137. An entity (a transfer provider) shall disclose the following information about a transfer recipient's remaining performance obligations:

(a) The aggregate amount of the transaction consideration allocated to the transfer recipient's performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the entity expects to recognize as an expense the amount disclosed in accordance with paragraph 137(a), which the entity shall disclose in either of the following ways:

(i) On a quantitative basis using the time bands that would be most appropriate for the duration of the resource recipient's remaining performance obligations; or

(ii) By using qualitative information.

138. As a practical expedient, an entity (a transfer provider) need not disclose the information in paragraph 137 for a transfer recipient's performance obligation if either of the following conditions is met:

(a) The transfer recipient's performance obligation is part of a binding arrangement that has an original expected duration of one year or less; or

(b) The entity (the transfer provider) recognizes an expense from the resource recipient's satisfaction of the performance obligation in accordance with paragraph AG50.

139. An entity (a transfer provider) shall explain qualitatively whether it is applying the practical expedient in paragraph 138 and whether any consideration from binding arrangements for transfer expenses with performance obligations is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 137. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 55–57).

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses with Performance Obligations

140. An entity (a transfer provider) shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses with performance obligations. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The timing of satisfaction of performance obligations by the transfer recipient (see paragraphs 141–142); and

(b) The transaction consideration and the amounts allocated to the transfer recipient's performance obligations (see paragraph 143).

Determining the Timing of Satisfaction of Performance Obligations by the Transfer Recipient

141. For performance obligations that a transfer recipient satisfies over time, an entity (a transfer provider) shall disclose both of the following:

(a) The methods used to recognize an expense (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) An explanation of why the methods used provide a faithful depiction of the transfer of goods or services by the transfer recipient to third-party beneficiaries.

142. For performance obligations satisfied at a point in time, an entity (a transfer provider) shall disclose the significant judgments made in evaluating when a third-party beneficiary obtains control of promised goods or services.

Determining the Transaction Consideration and the Amounts Allocated to the Transfer Recipient's Performance Obligations

143. An entity (a transfer provider) shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) Assessing whether an estimate of variable consideration is constrained; and

(c) Allocating the transaction consideration, including estimating stand-alone purchase prices of promised goods or services and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable).

Transfer Expenses without Performance Obligations

144. An entity shall disclose all of the following:

(a) A reconciliation of the opening and closing balances of liabilities from binding arrangements for transfer expenses without performance obligations, if not otherwise separately presented or disclosed;

(b) Where a transfer of resources is conditional on a transfer recipient undertaking specified activities, a description of those activities undertaken or to be undertaken;

(c) The amount of any liabilities forgiven;

(d) Where an entity cannot reliably measure a liability for a transfer expense without performance obligations, an explanation of the nature of the transfer expense and why a reliable measure is not possible; and

(e) The accounting policies adopted for the recognition of transfer expenses without performance obligations

Significant Judgments in the Application of this [draft] Standard to Binding Arrangements for Transfer Expenses without Performance Obligations.

145. An entity shall disclose the judgments, and changes in the judgments, made in applying this [draft] Standard that significantly affect the determination of the amount and timing of expenses from binding arrangements for transfer expenses without performance obligations. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:

(a) The determination of whether a promised transfer meets the criteria to be a present obligation; and

(b) The estimation of liabilities that include variable costs.

Practical Expedients

146. If an entity elects to use the practical expedient about the existence of a significant financing component in paragraph 62 (transfer expenses with performance obligations) or paragraph 112 (transfer expenses without performance obligations) the entity shall disclose that fact.

Effective Date and Transition

Effective Date

147. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before January 1, [Year], it shall disclose that fact and shall apply [draft] IPSAS [X] (ED 70) and [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, at the same time.**

148. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial

reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

149. For the purposes of the transition requirements in paragraphs 150–156:

(a) The date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard; and

(b) A completed binding arrangement for transfer expenses with performance obligations is a binding arrangement for which the third-party beneficiary has received all of the goods or services specified in the binding arrangement.

Transfer Expenses with Performance Obligations

150. An entity shall apply this [draft] Standard to binding arrangements for transfer expenses with performance obligations using one of the following two methods:

(a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 152; or

(b) Retrospectively with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application in accordance with paragraphs 154–156.

151. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied to binding arrangements for transfer expenses with performance obligations, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this [draft] Standard is applied (the 'immediately preceding period') and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph 150(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

152. An entity may use one or more of the following practical expedients when applying this [draft] Standard retrospectively to binding arrangements for contributions, in accordance with paragraph 150(a):

(a) For completed binding arrangements for transfer expenses with performance obligations, an entity need not restate binding arrangements that:

(i) Begin and end within the same annual reporting period; or

(ii) Are completed binding arrangements for transfer expenses with performance obligations at the beginning of the earliest period presented.

(b) For completed binding arrangements for transfer expenses with performance obligations that have variable consideration, an entity may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) For binding arrangements for transfer expenses with performance obligations that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 21–22. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) Identifying the transfer recipient's satisfied and unsatisfied performance obligations;

(ii) Determining the transaction consideration; and

(iii) Allocating the transaction consideration to the transfer recipient's satisfied and unsatisfied performance obligations.

(d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the transfer recipient's remaining performance obligations and an explanation of when the entity expects to recognize that amount as an expense (see paragraph 137).

153. For any of the practical expedients in paragraph 152 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements for transfer expenses with performance obligations within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

(b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

154. If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph 150(b), the entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this [draft] Standard retrospectively only to binding arrangements for transfer expenses with performance obligations that are not completed binding arrangements for transfer expenses with performance obligations at the date of initial application (for example, January, [Year] for an entity with a December 31 year-end).

155. An entity applying this [draft] Standard retrospectively in accordance with paragraph 150(b) may also use the practical expedient described in paragraph 152(c), either:

(a) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the beginning of the earliest period presented; or

(b) For all modifications to a binding arrangement for transfer expenses with performance obligations that occur before the date of initial application.

If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements for transfer expenses with performance obligations and disclose the information required by paragraph 153.

156. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph 150(b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the entity's previous accounting policies; and

(b) An explanation of the reasons for significant changes identified.

Transfer Expenses without Performance Obligations

157. An entity shall apply this [draft] Standard to transfer expenses without performance obligations retrospectively, with the cumulative effect of initially applying this [draft] Standard recognized at the date of initial application.

158. An entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit, or other component of net assets/equity, as appropriate, of the annual reporting period that includes the date of initial application. An entity may elect to apply this [draft] Standard retrospectively only to binding arrangements where one or both parties have yet to perform all their obligations at the date of initial application (for example, January 1, [Year] for an entity with a December 31 year-end).

159. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures:

    (a) The amount by which each financial statement line item is affected in the current reporting period by the application of this [draft] Standard as compared to the entity's previous accounting policies; and

    (b) An explanation of the reasons for significant changes identified.

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED xx)

AG1. This application guidance is organized into the following categories:

(a) Objective (paragraphs AG2–AG4);

(b) Scope (paragraphs AG5–AG6);

(c) Definitions (paragraphs AG7–AG8);

(d) Public Sector Performance Obligation Approach:

(i) Recognition (paragraphs AG24–AG54;

(ii) Measurement (paragraphs AG55–AG91;

(e) Transfer Expenses without Performance Obligations:

(i) Recognition (paragraphs AG92–AG99;

(ii) Measurement (paragraphs AG109–AG113; and

(f) Disclosures (paragraphs AG114–AG116).

Objective (see paragraph 1)

AG2. To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognize expenses as follows:

(a) For transfer expenses where the transfer recipient is required to satisfy performance obligations by transferring goods or services to third-party beneficiary, to depict the transfer of resources in an amount that reflects the consideration which the entity expects to be obligated to pay in exchange for those goods or services; and

(b) For transfer expenses where the transfer recipient is not required to satisfy performance obligations, at the earlier of the date at which the entity has a present obligation to transfer resources to a transfer recipient, and the date when the entity ceases to control the resources (i.e., when it transfers those resources to the beneficiary or resource recipient).

AG3. An entity shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

AG4. This [draft] Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual transfers within that portfolio. Transfers with performance obligations and transfers without performance obligations do not have similar characteristics are are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Scope (see paragraphs 2–4)

AG5. The scope of this [draft] Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or asset to another entity without receiving any good, service, or asset in return. The definitions of "*binding arrangement", "performance obligation", "third-party beneficiary", "transfer expense", "transfer provider"* and *"transfer recipient"* in paragraph 6, or in other Standards as explained in paragraph 7, establish the key elements in applying the scope of the [draft] Standard.

AG6. This [draft] Standard does not address transactions where an entity receives any good, service or asset in return for the good, service or asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

Definitions (see paragraphs 6–7)

Transfer expense

AG7. This Standard defines a transfer expense as a transaction in which an entity (the transfer provider) provides a good, service, or asset to another entity (the transfer recipient) without receiving any good, service, or asset in return. For the purposes of determining whether the transfer provider has received a good, service or another asset, a transfer provider's binding arrangement asset is not considered to be another asset received by the transfer provider. This is because a transfer provider's binding arrangement asset is the right to have a good, service or asset transferred to a third-party beneficiary. This is a temporary asset that will be derecognized as the transfer recipient fulfills its performance obligations.

Transfer recipient

AG8. A transfer recipient is an entity that receives a good, service, or asset from another entity (the transfer provider) without providing any good, service, or asset to that entity. While the transfer recipient does not provide any good, service or other asset to the transfer provider, it may provide a good, service or asset to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the transfer provider.

Binding Arrangement

AG9. A binding arrangement is defined in [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. The [draft] Standard relies on the definition of a binding arrangement, being an arrangement that confers enforceable rights and obligations on all the parties to the arrangement. In the public sector an arrangement is enforceable when the entity (the transfer provider) and the transfer recipient are able to enforce the rights and obligations through legal or equivalent means.

AG10. There are jurisdictions where public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to legal arrangements (described as equivalent means).

AG11. For an arrangement to be enforceable through 'equivalent means', the presence of a mechanism outside the legal systems that establishes the right of the entity (the transfer provider) to oblige the transfer recipient to satisfy the agreed obligations or be subject to consequences is required.

Similarly, the presence of a mechanism outside the legal systems that establishes the right of the transfer recipient to oblige the entity (the transfer provider) to pay the agreed consideration is required.

AG12. An entity considers the substance rather than the legal form of an arrangement in determining whether it is enforceable. An arrangement is enforceable by another party through legal or equivalent means if the agreement includes:

(a) Distinct rights and obligations for both the entity (the transfer provider) and the transfer recipient; and

(b) Remedies for non-performance by the either party which can be enforced by the other party through legal or equivalent means.

AG13. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

AG14. To be considered a binding arrangement for the purposes this [draft] Standard, the rights and obligations in these arrangements must be enforceable by legal or equivalent means (discussed further in paragraphs AG15–AG23).

Enforceability

AG15. A key characteristic of a binding arrangement is the ability of both parties to enforce the rights and obligations of the arrangement. That is, the entity receiving the consideration (the transfer recipient) must be able to enforce the promise to receive funding (consideration). Similarly, the entity providing the funding (the transfer provider) must be able to enforce fulfillment of the obligations assumed by the entity receiving the consideration (the transfer recipient).

AG16. Legal enforceability arises from the compulsion by a legal system, comprising the courts in a jurisdiction, to comply with the terms of the binding arrangement. Compliance with a binding arrangement is determined based on the principles set out in the laws of a jurisdiction, which includes legislation, executive authority or ministerial directives, as well as judicial rulings and case law precedence.

AG17. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing a transfer recipient to transfer the promised goods or services to a third-party beneficiary, or directing an entity (a transfer provider) to transfer the promised consideration.

AG18. Legislative authority (sometimes called sovereign rights) is an authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this [draft] Standard. However, if the use of legislative authority were detailed in the binding arrangement as a means of enforcing the satisfaction of performance obligations by an entity this may result in a legislative enforcement mechanism.

AG19. Other forms of enforceability by ‘equivalent means’ may also exist in the public sector and may be jurisdictionally specific. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to a transfer recipient controlled by the government to transfer goods or services to third-party beneficiaries may be enforceable. Similarly, a directive given by a minister or government department to an entity (a transfer provider) controlled by the government to transfer the promised consideration may be enforceable. The key determining factor is that each party must be able to enforce the promises made in the binding arrangement. Each party must have the ability and authority to compel the other party to fulfil the promises established within the arrangement or to seek redress should these promises not be fulfilled.

AG20. A transfer recipient may feel compelled to deliver on the obligations in a binding arrangement because of the risk that it might not receive future funding from the other entity (the transfer provider). In general, the entity's (the transfer provider's) ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this [draft] Standard because there is no present obligation on the entity (the transfer provider) to provide such funding. However, if the transfer recipient was presently entitled to funding in the future (through another binding arrangement) then this could be considered a valid enforcement mechanism.

AG21. When determining if a reduction of future funding would be an enforcement mechanism, the entity (the transfer provider) shall apply a judgment based on the facts and circumstances.

AG22. For the purposes of this [draft] Standard, transfer expenses with performance obligations involve three-party arrangements–transfer provider (reporting entity in this [draft] Standard, transfer recipient and third-party beneficiaries. It is important to recognize that in these three-party arrangements the third-party beneficiaries do not have any rights to force the transfer recipient to deliver goods and services because they are not a party to the binding arrangement. However, for these three-party arrangements to be considered transfer expenses with performance obligations, the entity (the transfer provider) must have the ability to force the transfer recipient to deliver goods and services to third-party beneficiaries. In these three-party arrangements the transfer recipient is not an agent of the entity (the transfer provider) because the transfer recipient gains control of the consideration from the entity (the transfer provider) and is responsible for providing goods or services to the third-party beneficiaries.

AG23. A statement of intent or public announcement by an entity (a transfer provider) such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity (a transfer provider) and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a constructive obligation in accordance with IPSAS 19¸ *Provisions, Contingent Liabilities and Contingent Assets*.

Public Sector Performance Obligation Approach (see paragraphs 9–88)

Recognition (see paragraphs 10–45

Identifying the Binding Arrangement (Step 1) (see paragraphs 10–22)

AG24. The criteria an entity considers in determining when to account for a transfer expense with performance obligations are similar to those an entity would consider in determining when to account for revenue in accordance with [draft] IPSAS [X] (ED 70). However, in determining when to account for a transfer expense with performance obligations, an entity does not need to consider whether the binding arrangement has economic substance. A transfer expense is the transfer of a good, service or other asset without receiving a good, service or asset in return, and consequently all transfer expenses have economic substance.

Identifying Performance Obligations (Step 2) (see paragraphs 23–31)

AG25. This [draft] Standard requires transfer expenses with performance obligations to be recognized as or when a performance obligation is fulfilled by a transfer recipient.

AG26. Paragraph 23 requires an entity (the transfer provider) to identify any performance obligations when a binding arrangement is entered into (Step 2 of the recognition model). A performance obligation is a promise by the transfer recipient in a binding arrangement with a transfer provider to transfer to third-party beneficiaries either:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser.

AG27. The key features of this definition of a performance obligation are that goods and services must be distinct and there must be a transfer of these goods and services to a third-party beneficiary. If goods or services (or a bundle of goods or services) are not transferred and/or are not distinct, the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 89–118).

AG28. In the public sector, identifying performance obligations may require significant judgment. A necessary condition for identifying a performance obligation is that the promise must be distinct to be able to determine when that performance obligation is fulfilled by the transfer recipient. In identifying performance obligations which are distinct an entity considers the following factors:

(a) The nature or type of the goods or services;

(b) The cost or value of the goods or services;

(c) The quantity of the goods or services; and

(d) The period over which the goods or services must be transferred.

AG29. The existence of performance indicators in relation to the delivery of goods and services does not necessarily indicate the existence of a performance obligation as defined in [draft] IPSAS [X] (ED 70). A performance obligation is a promise by a transfer recipient within a binding arrangement to transfer goods or services or a bundle of goods or services to a third-party beneficiary based on the terms and conditions agreed between two parties (the transfer provider and the transfer recipient).

AG30. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator does not typically specify the goods or services to be transferred and is often an internally imposed indicator of performance and therefore not a performance obligation.

Distinct Goods and Services

AG31. A good or service promised by a transfer recipient in a binding arrangement is distinct if the following two criteria are both met (see paragraph 28):

(a) The third-party beneficiary can derive the economic benefit or service potential from the good or service either on its own or together with other resources that are readily available to the third-party beneficiary (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to transfer the good or service to the third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG32. When identifying a performance obligation, not only does the promised transfer of the goods and services by the transfer recipient in a promise need to be separately identifiable but the promises in a binding arrangement must also be distinct from other promises in the same binding arrangement to allow for the transfer provider to be able to determine when that performance obligation is fulfilled. Therefore, it is possible to have several performance obligations in one binding arrangement.

Transfer of Goods and Services

AG33. The second requirement of a performance obligation is that there must be a transfer of goods and services to the third-party beneficiary. If there is no requirement to transfer control of goods or services, the transaction is not a transfer expense with performance obligations, and is accounted for as a transfer expense without performance obligations (see paragraphs 89–118).

AG34. This [draft] Standard requires that transfer expenses are recognized when a transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary. The transfer of the good or service is indicated when the third-party beneficiary gains control of the promised goods or services. A transfer provider can receive the economic benefits or service potential from the good or service transferred to a third-party beneficiary where the transfer of the good or service to the third-party beneficiary contributes to the transfer provider achieving its service objectives.

AG35. Paragraph 34 provides indicators of control which include:

(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and

(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.

Step 5: Satisfaction of Performance Obligations (see paragraphs 32–45)

Performance Obligations Satisfied Over Time (see paragraph 35)

AG36. Paragraph 35 provides that a performance obligation is satisfied over time if one of the following criteria is met:

(a) The third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the transfer recipient's performance as the transfer recipient performs (see paragraphs AG37–AG38);

(b) The transfer recipient's performance creates or enhances an asset (for example, work in progress) that a third-party beneficiary controls as the asset is created or enhanced (see paragraph AG39); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG40–AG42) and the entity has an enforceable right to payment for performance completed to date (see paragraphs AG43–AG47).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential of the Entity's Performance (see paragraph 35(a))

AG37. For some types of performance obligations, the assessment of whether a third-party beneficiary receives the economic benefit or service potential of a transfer recipient's performance as the transfer recipient performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the third-party beneficiary of the economic benefits or service potential of the transfer recipient's performance can be readily identified.

AG38. For other types of performance obligations, an entity may not be able to readily identify whether a third-party beneficiary simultaneously receives and consumes the economic benefits or service potential from the transfer recipient's performance as the transfer recipient performs. In those circumstances, a performance obligation is satisfied over time if an entity determines that another entity (i.e., another supplier) would not need to substantially re-perform the work that the transfer recipient has completed to date if that other entity were to fulfill the remaining performance obligation to the transfer provider. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the transfer recipient from transferring the remaining performance obligation to another entity; and

(b) Presume that another entity fulfilling the remainder of the performance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the transfer recipient and that would remain controlled by the transfer recipient if the performance obligation were to transfer to another entity.

Third-Party Beneficiary Controls the Asset as it is Created or Enhanced

AG39. In determining whether a third-party beneficiary controls an asset as it is created or enhanced by the transfer recipient in accordance with paragraph 35(b), an entity shall apply the requirements for control in paragraphs 32–34 and 38. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Transfer Recipient's Performance does not Create an Asset with an Alternative Use (see paragraph 35(c))

AG40. In assessing whether an asset has an alternative use to a transfer recipient in accordance with paragraphs 35(c) and 36, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the transfer recipient's ability to readily direct that asset for another use, such as providing it to a different purchaser. The possibility of the binding arrangement with the entity (the transfer provider) being terminated is not a relevant consideration in assessing whether the transfer recipient would be able to readily direct the asset for another use.

AG41. A restriction in the binding arrangement on a transfer recipient's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the transfer recipient. A restriction in the binding arrangement is substantive if the entity (the transfer provider) could enforce its rights to the promised asset if the transfer recipient sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the transfer recipient could transfer to another purchaser without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG42. A practical limitation on a transfer recipient's ability to direct an asset for another use exists if a transfer recipient would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the transfer recipient either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, a transfer recipient may be practically limited from redirecting assets that either have design specifications that are unique to a transfer provider or are located in remote areas.

Right to Payment for Performance Completed to Date (see paragraph 35(c))

AG43. In accordance with paragraphs 35(c) and 37, a transfer recipient has a right to payment for performance completed to date if the transfer recipient would be entitled to an amount that at least compensates it for its performance completed to date in the event that the entity (the transfer provider) or another party terminates the binding arrangement for reasons other than the transfer recipient's failure to perform as promised. An amount that would compensate a transfer recipient for performance completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by a transfer recipient in satisfying the performance obligation plus a reasonable margin) rather than compensation for only the transfer recipient's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was fulfilled as promised, but a transfer recipient should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the transfer recipient's performance under the binding arrangement before termination by the entity (the transfer provider) or another party; or

(b) A reasonable return on the transfer recipient's cost of capital for similar binding arrangements (or the transfer recipient's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the transfer recipient usually generates from similar binding arrangements.

A transfer provider may have insufficient information to assess whether amounts payable to the transfer recipient for its performance completed to date would provide a reasonable margin for the transfer recipient. Consequently, there is a rebuttable presumption that where the transfer recipient has an enforceable right to payment for performance completed to date, this is sufficient to provide a reasonable margin for the transfer recipient. This presumption may only be rebutted where the transfer provider has evidence that the payment is insufficient to provide a reasonable margin for the transfer recipient.

AG44. A transfer recipient's right to payment for performance completed to date need not be a present unconditional right to payment. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the performance obligation. In assessing whether a transfer recipient has a right to payment for performance completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for performance completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to perform as promised.

AG45. In some binding arrangements, an entity (a transfer provider) may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the entity might not have any right to terminate the binding arrangement. If an entity (a transfer provider) acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the entity (the transfer provider) fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to transfer to the third-party beneficiary the goods or services promised in the binding arrangement and require the entity (the transfer provider) to pay the consideration promised in exchange for those goods or services. In those circumstances, a transfer recipient has a right to payment for performance completed to date because the transfer recipient has a right to continue to perform its obligations in accordance with the binding arrangement and to require the entity (the transfer provider) to perform its obligations (which include paying the promised consideration).

AG46. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

(a) Legislation, administrative practice or legal precedent confers upon the entity a right to payment for performance to date even though that right is not specified in the binding arrangement with the purchaser;

(b) Relevant legal precedent indicates that similar rights to payment for performance completed to date in similar binding arrangements have no binding legal effect; or

(c) An entity's customary practices of choosing not to enforce a right to payment has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to payment in similar binding arrangements, an entity would continue to have a right to payment to date if, in the binding arrangement with the purchaser, its right to payment for performance to date remains enforceable.

AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for performance completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity (the transfer provider), the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for performance completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the entity (the transfer provider) is refundable for reasons other than the transfer recipient failing to perform as promised in the binding arrangement.

Methods for Measuring Progress towards Complete Satisfaction of a Performance Obligation (see paragraphs 35–37)

AG48. Methods that can be used to measure a transfer recipient's progress towards complete satisfaction of a performance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG49–AG51); and

(b) Input methods (see paragraphs AG52–AG54).

Output Methods

AG49. Output methods recognize expenses on the basis of direct measurements of the value to the entity (the transfer provider) of the goods or services transferred to date relative to the remaining goods or services promised under the binding arrangement. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. Output methods are generally appropriate for recognizing expenses. When an entity evaluates whether to apply an output method to measure a transfer recipient's progress, the entity shall consider whether the output selected would faithfully depict the transfer recipient's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the transfer recipient's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the third-party beneficiary. For example, output methods based on units produced or units delivered would not faithfully depict a transfer recipient's performance in satisfying a performance obligation if, at the end of the reporting period, the transfer recipient's performance has produced work in progress or finished goods controlled by the third-party beneficiary that are not included in the measurement of the output.

AG50. As a practical expedient, if a transfer recipient has a right to consideration from an entity (a transfer provider) in an amount that corresponds directly with the value to the entity (the transfer provider) of the transfer recipient's performance completed to date (for example, a binding arrangement to render or provide a service in which a transfer recipient bills a fixed amount for each hour of service provided), the entity (the transfer provider) may recognize an expense in the amount to which the transfer recipient has a right to invoice, and where such information is available to the entity (the transfer provider), either from the transfer recipient itself or via other means.

AG51. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost.

Input Methods

AG52. In many cases, information about a transfer recipient's inputs will not be available to the entity (the transfer provider), and an output method may be necessary. The following paragraphs provide guidance on the use of input methods where such information is available to an entity (a transfer provider).

AG53. Input methods recognize expenses on the basis of the transfer recipient's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the transfer recipient's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity (the transfer provider) to recognize expenses on a straight-line basis.

AG54. A shortcoming of input methods is that there may not be a direct relationship between a transfer recipient's inputs and the transfer of control of goods or services to a third-party beneficiary. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 39, do not depict the transfer recipient's performance in transferring control of goods or services to the third-party beneficiary. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required when a cost incurred does not contribute to a transfer recipient's progress in satisfying the performance obligation. For example, an entity (the transfer provider) would not recognize an expense on the basis of costs incurred by the transfer recipient that are attributable to significant inefficiencies in the transfer recipient's performance that were not reflected in the price of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the performance obligation).

Measurement (see paragraphs 46–84)

Step 3: Determining the Transaction Consideration (see paragraphs 47–70)

Determining the Transaction Consideration where Components of the Binding Arrangement do not Relate to the Transfer Recipient's Performance Obligations

AG55. In the public sector, an entity (a transfer provider) may enter into a binding arrangement with a transfer recipient with a dual purpose of obtaining goods or services to be transferred to a third-party beneficiary and to help the entity (the transfer provider) achieve its objectives. An entity (a transfer provider) shall allocate the transaction consideration to each of the transfer recipient's performance obligations in the binding arrangement so that the allocation depicts the amount of consideration to which the entity (the transfer provider) expects to be obligated to pay in exchange for the transfer recipient transferring the promised goods or services to the third-party beneficiary. This is based on the presumption that all of the consideration is wholly related to the transfer of goods or services to the third-party beneficiary (i.e., that all of the consideration is transaction consideration).

AG56. This presumption is rebutted when the terms of the binding arrangement specify that only a portion of the consideration is to be returned to the entity (the transfer provider) in the event the transfer recipient does not deliver the promised goods or services to the third-party beneficiary. Where the presumption is rebutted, the entity shall disaggregate the consideration and shall include the component that relates to the transfer of promised goods or services to the third-party beneficiary in the transition consideration in accordance with paragraphs 47–70. The remainder of the consideration (i.e., the amount that does not relates to the transfer of promised goods or services to the third-party beneficiary) shall be accounted for as a transfer expense without performance obligations in accordance with paragraphs 89–118. The existence of a component of the consideration that does not relates to the transfer of promised goods or services to the third-party beneficiary will often, but not always, be made explicit in the binding arrangement.

Step 4: Allocating the Transaction Price to Performance Obligations (see paragraphs 71–84)

Warranties

AG57. It is common for a transfer recipient to provide (in accordance with the binding arrangement, the law or the transfer recipient's customary practices) a warranty in connection with the provision of a product (whether a good or service). The nature of a warranty can vary significantly across sectors and binding arrangements. Some warranties provide a transfer provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG58. If a transfer provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the transfer recipient promises to provide the service to the third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity (a transfer provider) shall account for the promised warranty as a transfer recipient's performance obligation in accordance with paragraphs 23–31 and allocate a portion of the transaction consideration to that transfer recipient's performance obligation in accordance with paragraphs 71–84.

AG59. In assessing whether a warranty provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity (a transfer provider) shall consider factors such as:

(a) Whether the warranty is required by law—if the transfer recipient is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a transfer recipient's performance obligation because such requirements typically exist to protect transfer providers and third-party beneficiaries from the risk of purchasing defective products.

(b) The length of the warranty coverage period—the longer the coverage period, the more likely it is that the promised warranty is a transfer recipient's performance obligation because it is more likely to provide a service to the third-party beneficiary in addition to the assurance that the product complies with agreed-upon specifications.

(c) The nature of the tasks that the transfer recipient promises to perform—if it is necessary for a transfer recipient to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a transfer recipient's performance obligation.

AG60. If a warranty, or a part of a warranty, provides a third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a transfer recipient's performance obligation. Therefore, an entity (a transfer provider) shall allocate the transaction consideration to the product and the service. If a transfer provider is promised both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity (the transfer provider) shall account for both of the warranties together as a transfer recipient's single performance obligation.

Options for Additional Goods or Services

AG61. Options for an entity (a transfer provider) to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, award credits (or points), renewal options in a binding arrangement for transfer expenses with performance obligations or other discounts on future goods or services.

AG62. If, in a binding arrangement for transfer expenses with performance obligations, a transfer recipient grants an entity (a transfer provider) the option to purchase additional goods or services to be transferred to third-party beneficiaries, that option gives rise to a transfer recipient's performance obligation in the binding arrangement only if the option provides a material right to the entity (the transfer provider) that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of transfer provider in that geographical area or market). If the option provides a material right to the entity (the transfer provider), the entity in effect pays the transfer recipient in advance for future goods or services to be transferred to third-party beneficiaries and the entity (the transfer provider) recognizes an expense when those future goods or services are transferred or when the option expires.

AG63. If an entity (a transfer provider) has the option to acquire an additional good or service at a price that would reflect the stand-alone price for that good or service, that option does not provide the entity (the transfer provider) with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity (the transfer provider) shall recognize and expense for in accordance with this [draft] Standard only when it exercises the option to purchase the additional goods or services.

AG64. Paragraph 72 requires an entity to allocate the transaction consideration to a transfer recipient's performance obligations on a relative stand-alone purchase price basis. If the stand-alone purchase price for an entity's (a transfer provider's) option to purchase additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the entity (the transfer provider) would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the entity (the transfer provider) could receive without exercising the option; and

(b) The likelihood that the option will be exercised.

AG65. If an entity (a transfer provider) has a material right to purchase future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone purchase price of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Purchasers' Unexercised Rights

AG66. In accordance with paragraph 120, where an entity (a transfer provider) makes a payment to a transfer recipient prior to the promised goods and services being transferred to the third-party beneficiary, the entity (the transfer provider) shall recognize a transfer provider's binding arrangement asset in the amount of the prepayment for the transfer recipient's performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity (a transfer provider) shall derecognize that transfer provider's binding arrangement asset (and recognize an expense) when the transfer recipient transfers those goods or services to the third-party beneficiary and, therefore, satisfies its performance obligation.

AG67. An entity's (a transfer provider's) non-refundable prepayment to a transfer recipient gives the entity (the transfer provider) a right to have a good or service transferred to a third-party beneficiary in the future (and obliges the transfer recipient to stand ready to transfer a good or service). However, an entity (a transfer provider) may not exercise all of its rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG68. An entity (a transfer provider) shall not derecognize a transfer provider's binding arrangement asset as a result of breakage until it is no longer entitled to exercise all of its rights. If an entity (a transfer provider) expects breakage to occur, it shall assess the transfer provider's binding arrangement asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

Non-refundable Upfront Fees (and some Related Costs)

AG69. In some binding arrangements, a transfer recipient charges an entity (a transfer provider) a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG70. To identify the transfer recipient's performance obligations in such binding arrangements, an entity (a transfer provider) shall assess whether the fee relates to the transfer of a promised good or service to a third-party beneficiary. In many cases, even though a non-refundable upfront fee relates to an activity that the transfer recipient is required to undertake at or near the inception of the binding arrangement, to fulfill the binding arrangement that activity does not result in the transfer of a promised good or service to the third-party beneficiary (see paragraph 26). Instead, the upfront fee is an advance payment for future goods or services to be provided to third-party beneficiaries and, therefore, would be recognized as an expense when those future goods or services are provided to the third-party beneficiaries. The expense recognition period would extend beyond the initial period of the binding arrangement if the transfer recipient grants the entity (the transfer provider) the option to renew the binding arrangement and that option provides the entity (the transfer provider) with a material right as described in paragraph AG62.

AG71. If the non-refundable upfront fee relates to a good or service transferred to a third-party beneficiary, the entity (the transfer provider) shall evaluate whether to account for the good or service as a separate performance obligation in accordance with paragraphs 23–31.

Other Specific Application Issues

Licensing

AG72. A license establishes a third-party beneficiary's rights to the intellectual property of a transfer recipient. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

(b) Motion pictures, music and other forms of media and entertainment;

(c) Franchises; and

(d) Patents, trademarks and copyrights.

AG73. In addition to a promise to grant a license (or licenses) to a third-party beneficiary, a transfer recipient may also promise to transfer other goods or services to the third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by a transfer recipient's customary practices, published policies or specific statements (see paragraph 25). As with other types of binding arrangements, when a binding arrangement with a transfer recipient includes a promise by the transfer recipient to grant a license (or licenses) in addition to other promised goods or services, an entity (the transfer provider) applies paragraphs 23–31 to identify each of the transfer recipient's performance obligations in the binding arrangement.

AG74. If the transfer recipient's promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 27–31, an entity (the transfer provider) shall account for the transfer recipient's promise to grant a license to a third-party beneficiary and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

(a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) A license that the third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the transfer recipient that enables, by granting a license, the third-party beneficiary to access content).

AG75. If the license is not distinct, an entity (the transfer provider) shall apply paragraphs 32–38 to determine whether the transfer recipient's performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

AG76. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the transfer recipient's promise to grant the license is a separate performance obligation, an entity (the transfer provider) shall determine whether the license transfers to a third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the transfer recipient's promise in granting the license to a third-party beneficiary is to provide the third-party beneficiary with either:

(a) A right to access the transfer recipient's intellectual property as it exists throughout the license period; or

(b) A right to use the transfer recipient's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Transfer Recipient's Promise

AG77. The nature of a transfer recipient's promise in granting a license is a promise to provide a right to access the transfer recipient's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the entity (the transfer provider) reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the third-party beneficiary has rights (see paragraphs AG78 and AG79);

(b) The rights granted by the license directly expose the third-party beneficiary to any positive or negative effects of the transfer recipient's activities identified in paragraph AG77(a); and

(c) Those activities do not result in the transfer by the transfer recipient of a good or a service to the third-party beneficiary as those activities occur (see paragraph 26).

AG78. Factors that may indicate that an entity (a transfer provider) could reasonably expect that a transfer recipient will undertake activities that significantly affect the intellectual property include the transfer recipient's customary practices, published policies or specific statements.

AG79. A transfer recipient's activities significantly affect the intellectual property to which the third-party beneficiary has rights when either:

(a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

(b) The ability of the third-party beneficiary to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

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

AG80. If the criteria in paragraph AG77 are met, an entity (a transfer provider) shall account for the transfer recipient's promise to grant a license to a third-party beneficiary as a performance obligation satisfied over time because the third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the transfer recipient's performance of providing access to its intellectual property as the performance occurs (see paragraph 35(a)). An entity shall apply paragraphs 39–45 to select an appropriate method to measure the transfer recipient's progress towards complete satisfaction of that performance obligation to provide access.

AG81. If the criteria in paragraph AG77 are not met, the nature of a transfer recipient's promise is to provide a right to use the transfer recipient's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the third-party beneficiary. This means that the third-party beneficiary can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity (a transfer provider) shall account for the transfer recipient's promise to provide a right to use the transfer recipient's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 38 to determine the point in time at which the license transfers to the third-party beneficiary. However, an expense cannot be recognized for a license that provides a right to use the transfer recipient's intellectual property before the beginning of the period during which the third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before a transfer recipient provides (or otherwise makes available) to the third-party beneficiary a code that enables the third-party beneficiary to immediately use the software, the entity would not recognize an expense before that code has been provided (or otherwise made available).

AG82. An entity (a transfer provider) shall disregard the following factors when determining whether a license provides a right to access the transfer recipient's intellectual property or a right to use the transfer recipient's intellectual property:

(a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the transfer recipient satisfies its performance obligation at a point in time or over time.

(b) Guarantees provided by the transfer recipient that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the transfer recipient's intellectual property assets and provides assurance to the transfer provider that the license transferred to the third-party beneficiary meets the specifications of the license promised in the binding arrangement.

Usage-Based Royalties

AG83. Notwithstanding the requirements in paragraphs 55–58, an entity shall recognize an expense for a usage-based royalty promised in exchange for a license of intellectual property transferred to a third-party beneficiary only when (or as) the later of the following events occurs:

(a) The subsequent usage occurs; and

(b) The transfer recipient's performance obligation to which some or all of the usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG84. The requirement for a usage-based royalty in paragraph AG83 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity (the transfer provider) would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG85. When the requirement in paragraph AG84 is met, an expense for a usage-based royalty shall be recognized wholly in accordance with paragraph AG83. When the requirement in paragraph AG84 is not met, the requirements on variable consideration in paragraphs 50–58 apply to the sales-based or usage-based royalty.

Bill-and-Hold Arrangements

AG86. A bill-and-hold arrangement is a binding arrangement under which a transfer recipient bills an entity (a transfer provider) for a product, but the transfer recipient retains physical possession of the product until it is transferred to the third-party beneficiary at a point in time in the future.

AG87. An entity (a transfer provider) shall determine when the transfer recipient has satisfied its performance obligation to transfer a product to a third-party beneficiary by evaluating when the third-party beneficiary obtains control of that product (see paragraph 38). For some binding arrangements, control is transferred either when the product is delivered to the third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a third-party beneficiary may obtain control of a product even though that product remains in the transfer recipient's physical possession. In that case, the third-party beneficiary has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the transfer recipient does not control the product. Instead, the transfer recipient provides custodial services to the third-part beneficiary over the third-party beneficiary's asset.

AG88. In addition to applying the requirements in paragraph 38, for a third-party beneficiary to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) The reason for the bill-and-hold arrangement must be substantive (for example, the entity (the transfer provider) has requested the arrangement);

(b) The product must be identified separately as belonging to the third-party beneficiary;

(c) The product currently must be ready for physical transfer to the third-party beneficiary; and

(d) The transfer recipient cannot have the ability to use the product or to direct it to another purchaser.

AG89. If an entity (a transfer provider) recognizes an expense for the purchase of a product on a bill-and-hold basis, the entity shall consider whether the transfer recipient has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 23–31 to which the entity shall allocate a portion of the transaction price in accordance with paragraphs 71–84.

Third-Party Beneficiary Acceptance

AG90. In accordance with paragraph 38(e), a third-party beneficiary's acceptance of an asset may indicate that the third-party beneficiary has obtained control of the asset. Third-party beneficiary acceptance clauses may allow the entity (the transfer provider) to cancel a binding arrangement or require a transfer recipient to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the third-party beneficiary obtains control of a good or service.

AG91. If a transfer recipient delivers products to a third-party beneficiary for trial or evaluation purposes and the entity (the transfer provider) is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the third-party beneficiary until either the third-party beneficiary accepts the product or the trial period lapses.

Transfer Expenses without Performance Obligations (see paragraphs 89–118)

Recognition (see paragraphs 90–99)

AG92. In accordance with paragraph 90, an entity (a transfer provider) shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) When the entity (the transfer provider) has a present obligation to transfer resources to a transfer recipient; and

(b) When the entity (the transfer provider) ceases to control the resources it has agreed to transfer.

AG93. The point at which an entity (a transfer provider) has a present obligation to transfer resources to a transfer recipient will depend upon the terms of the binding arrangement and the circumstances of the transfer expense. For example, an entity (a transfer provider) may enter into a binding arrangement with a university (a transfer recipient), whereby the university undertakes a research project over several years. At the end of the project, the university retains the intellectual property generated by the research project; the binding arrangement is therefore a binding arrangement for a transfer expense without performance obligations, and no goods or services are transferred to a third-party beneficiary, nor to the entity (the transfer provider). Depending on the terms of the binding arrangement, the entity (the transfer provider) may have a present obligation to transfer the promised resources:

(a) At the commencement of the research project;

(b) Periodically (i.e., at set dates) throughout the research project;

(c) As key project milestones are achieved; or

(d) At the completion of the research project.

AG94. In determining the point or points at which an entity (a transfer provider) may have a present obligation to transfer the promised resources, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence; and shall consider whether the promised resources are subject to appropriations (see paragraphs AG98–AG99).

AG95. Where an entity (a transfer provider) makes a prepayment (i.e., the entity transfers the promised resources before having a present obligation to do so), the entity shall not recognize an asset, but shall recognize an expense in accordance with paragraph 90(b). The entity (the transfer provider) does not recognize an asset as it does not have an enforceable right to the return of the resources. The binding arrangement may require the transfer recipient to return the resources to the entity (the transfer provider) in the event of non-compliance with the terms of the binding arrangement. However, until such time as there is a breach of the terms of the binding arrangement, there are no resources that are presently controlled by the entity (the transfer provider). Consequently, the entity (the transfer provider) does not have an asset at the point it transfers the resources, and hence it recognizes an expense.

AG96. Where the binding arrangement requires the transfer recipient to return the resources to the entity (the transfer provider) in the event of non-compliance with the terms of the binding arrangement, and such a breach of the terms occurs, the entity (the transfer provider) shall recognize an asset and an adjustment to transfer expenses to the extent that it has an enforceable right to have the resources returned, and that the return of the resources is probable.

Capital Grants

AG97. [Placeholder in case the IPSASB wishes to include alternative requirements for capital grants]

Transfer Expenses without Performance Obligations Subject to Appropriations

AG98. An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. In some jurisdictions, a binding arrangement for a transfer expense without performance obligations may specify that any future transfer is subject to the appropriation being approved. In such circumstances, an entity (the transfer provider) shall not recognize a liability for the transfer expense without performance obligations prior to the appropriation being approved. Until the appropriation is approved, the binding arrangement is not enforceable, as until this point, there is no legal obligation. A constructive obligation, as defined in IPSAS 19, does not arise as

(a) The transfer recipient will not have a valid expectation that a transfer will be made ahead of the appropriation being made; and

(b) The entity (the transfer recipient) or the legislative body can avoid the transfer by not approving the appropriation.

AG99. Transfer expenses without performance obligations may be made as a series of transfers. Where these are subject to annual appropriations, approval of an appropriation will give rise to a liability for the current year's transfer only, subject to the recognition criteria having been met. No liability for transfers beyond the current year arises because these will be subject to further appropriations.

Taxes

AG100. Taxes are defined in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*:

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

In some jurisdictions, taxes may be referred to by other terms, for example, levies.

AG101. An entity shall account for the income taxes paid or payable in accordance with the international or national accounting standard dealing with income taxes. An entity shall account for all other taxes paid or payable in accordance with paragraphs AG102–AG107. However, an entity is not required to account for liabilities that arise from emissions trading schemes in accordance with paragraphs AG102–AG107.

AG102. The obligating event (the past event) that gives rise to a liability to pay a tax is the activity that triggers the payment of the tax, as identified by the legislation. For example, if the activity that triggers the payment of the tax is the generation of revenue in the current period and the calculation of that tax is based on the revenue that was generated in a previous period, the obligating event for that tax is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

AG103. An entity does not have a constructive obligation to pay a tax that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

AG104. The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a tax that will be triggered by operating in a future period.

AG105. The liability to pay a tax is recognized progressively if the obligating event occurs over a period of time (i.e., if the activity that triggers the payment of the tax, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognized as the entity generates that revenue.

AG106. If an obligation to pay a tax is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs AG102–AG107 of this Interpretation (in particular, paragraphs AG102 and AG105). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognized when that minimum activity threshold is reached.

AG107. An entity shall recognize an asset if it has prepaid a tax but does not yet have a present obligation to pay that tax.

Fines

AG108. Fines are defined in IPSAS [X] (ED 71) as economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations. The past event for the recognition of a transfer expense without performance obligations in respect of a fine is the imposition of the fine by a court or other law enforcement body.

Measurement (see paragraphs 101–118)

AG109. In accordance with paragraph 101, where an entity (a transfer provider) recognizes a transfer expense without performance obligations at the date it transfers the resources to the transfer recipient, the entity shall measure the expense at the carrying amount of the resources transferred. In many cases, the resource transferred will be cash, and the expense will be measured at the amount of the cash transferred. Where the resource transferred is a non-cash asset, the expense will be measured at the carrying amount of the asset transferred. in accordance with paragraph 113, the entity (the transfer provider) does not revalue the assets prior to derecognizing them. For example, if an entity (a transfer provider) transfers inventory to a transfer recipient, it measures the expense at the carrying amount of the inventory transferred, not the fair value of the inventory.

AG110. In accordance with paragraph 102, where an entity (a transfer provider) recognizes a transfer expense without performance obligations prior to transferring the resources to the transfer recipient, it shall measure the expense and liability at the best estimate of the costs that the entity (the transfer provider) will incur in settling the liability. Where the resources to be transferred to the transfer recipient, for example where the entity (the transfer provider) has a present obligation to transfer a fixed amount of cash, or a specific non-financial asset, the liability will be measured at the carrying amount of the cash or non-cash asset to be transferred, adjusted, where necessary, for the time value of money in accordance with paragraph 108.

AG111. A transfer expense without performance obligations may include variable costs where, for example, the entity (the transfer provider) has agreed to meet the costs, or a portion of the costs, incurred by the transfer recipient in carrying out a specified activity. Such arrangements may also specify a maximum amount for the transfer expense without performance obligations. In accordance with paragraph 104, an entity's (a transfer provider's) best estimate of the amount it will incur to settle the liability reflects the entity's assessment of the costs that the transfer recipient is likely to incur.

AG112. When the entity (the transfer provider) makes its best estimate of the amount it will incur to settle the liability, the entity (the transfer provider) shall consider all information that is reasonably available to the entity. Where the binding arrangement that establishes a transfer expense without performance obligations that includes variable costs specifies the expected amount of the transfer expense, an entity (the transfer provider) may use this figure as its best estimate where this is consistent with any other evidence available to the entity (the transfer provider). The figure specified in the binding arrangement is most likely to provide a reliable estimate in the early days of the binding arrangement. This may change as the transfer recipient undertakes the activities specified in the binding arrangement, and the entity (the transfer provider) shall update its estimate as it obtains more recent evidence.

AG113. In rare cases, for example where the binding arrangement either does not specify an expected amount and where additional evidence (such as the costs incurred by the transfer recipient) is not available, the entity (the transfer provider) may not be able to make a reliable estimate of the liability. In such cases, the recognition criteria for the liability are not met, and no liability or expense are recognized until such time as a reliable estimate can be made. This may be the point at which the entity (the transfer provider) transfers the promised resources to the transfer recipient.

Disclosure (see paragraphs 125–146)

Disclosure of Disaggregated Expenses

AG114. Paragraph 131 requires an entity to disaggregate expenses from binding arrangements for transfer expenses with performance obligations into categories that depict how the nature, amount, timing and uncertainty of expenses and cash flows are affected by economic factors. Consequently, the extent to which an entity's expenses are disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements for transfer expenses with performance obligations. Some entities may need to use more than one type of category to meet the objective in paragraph 131 for disaggregating expenses. Other entities may meet the objective by using only one type of category to disaggregate expenses.

AG115. When selecting the type of category (or categories) to use to disaggregate expenses, an entity shall consider how information about the entity's expenses has been presented for other purposes, including all of the following:

(a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraph AG115(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG116. Examples of categories that might be appropriate include, but are not limited to, all of the following:

(a) Type of good or service (for example, major product lines);

(b) Geographical region (for example, country or region);

(c) Market or type of transfer recipient (for example, government and non-government transfer recipients);

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements); and

(f) Timing of transfer of goods or services (for example, transfer expenses for goods or services transferred to third-party beneficiaries at a point in time and transfer expenses for goods or services transferred over time).

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