

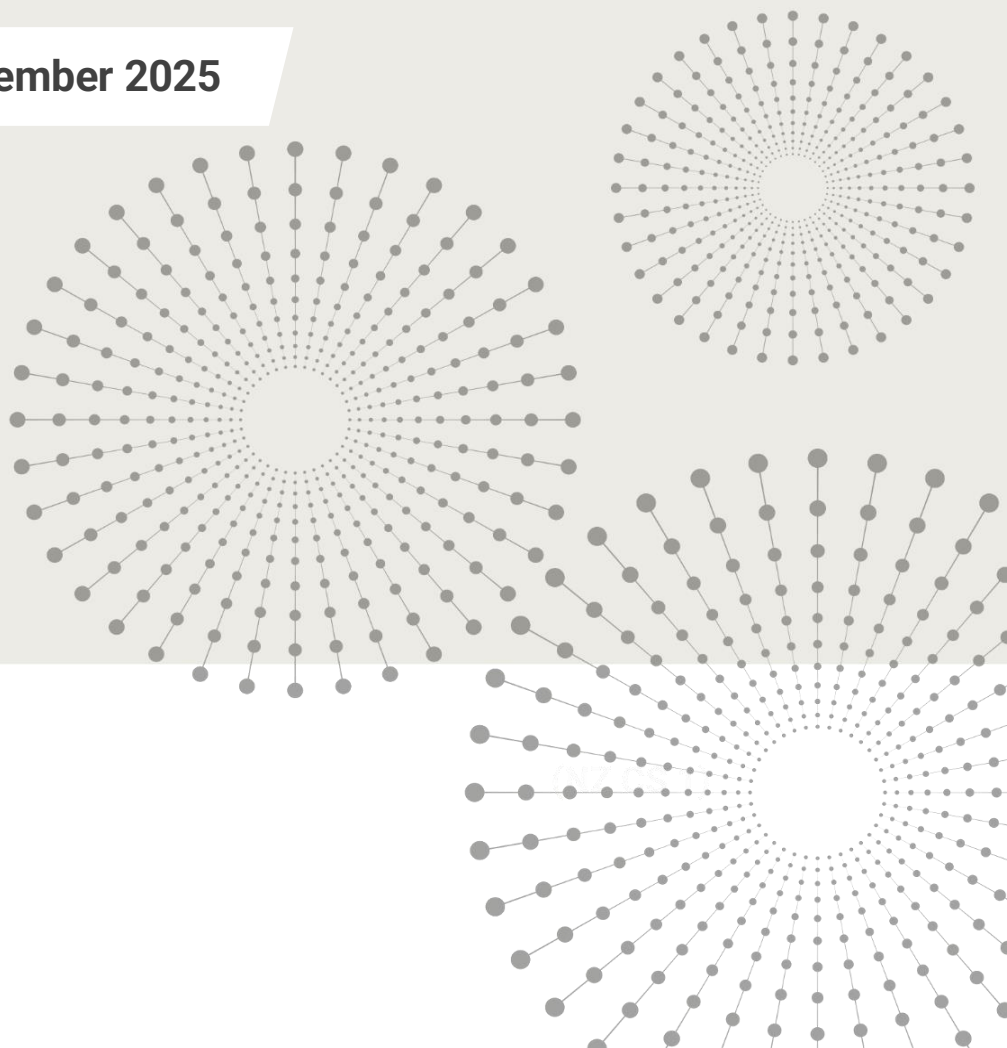
Proposed new accounting standard for transfer expenses

Tier 1 and Tier 2 public benefit entities

Exposure Draft PBE IPSAS 48 *Transfer Expenses*

Submissions close 1 December 2025

June 2025





NZASB EXPOSURE DRAFT 2025-[xx]

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 48 TRANSFER EXPENSES (PBE IPSAS 48)

Issued [date]

This [draft]⁺ Standard has been issued as a result of a new International Public Sector Accounting Standard – IPSAS 48 *Transfer Expenses*.

In finalising this Standard, the New Zealand Accounting Standards Board (NZASB) has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of Standard

This Standard was issued on [date] by the NZASB of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after its publication. The Standard was published under the Legislation Act 2019 on [date] and takes effect on [date].

Commencement and application

This Standard has a mandatory date of [1 January 2029], meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of this Standard to an earlier accounting period is permitted for accounting periods that end after the Standard takes effect – refer to paragraphs 62–62.3 of this Standard.

This Standard includes Reduced Disclosure Regime (RDR) concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 public benefit entity accounting requirements in accordance with XRB A1 *Application of the Accounting Standards Framework*. Entities that elect to report in accordance with Tier 2 PBE Accounting Requirements are not required to comply with paragraphs in this Standard denoted with an asterisk (*). However, an entity is required to comply with any RDR paragraphs associated with a disclosure concession that is adopted.

⁺ References to “this Standard” or “PBE IPSAS 48” throughout this Exposure Draft should be read as referring to “this draft Standard” or “draft PBE IPSAS 48”.

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ISBN

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The following is available on the XRB website as additional material

IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 48 *Transfer Expenses* (PBE IPSAS 48) is set out in paragraphs 1–64 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 48 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 48, the IPSASB’s Basis for Conclusions on IPSAS 48, the *Public Benefit Entities’ Conceptual Framework* and XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.
2. To meet the objective in paragraph 1, this Standard:
 - (a) Requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and
 - (b) Sets out the accounting requirements for the transfer expense transaction.

Scope

- 2.1. **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
- 2.2. **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**
3. **An entity that prepares and presents financial statements shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers.**
4. **This Standard does not apply to:**
 - (a) **Leases as defined in PBE IPSAS 13¹ *Leases*;**
 - (b) **Contributions from, and distributions to, owners;**
 - (c) **Service concession arrangements as defined in PBE IPSAS 32 *Service Concession Arrangements: Grantor*;**
 - (d) **Employee benefits as defined in PBE IPSAS 39 *Employee Benefits*;**
 - (e) **Financial instruments, including concessionary loans, as defined in PBE IPSAS 41 *Financial Instruments*;**
 - (f) [Not used]
 - (g) **Insurance contracts within the scope of PBE IFRS 17 *Insurance Contracts*;**
 - (h) **Share-based payments (see the international or national accounting standard dealing with share-based payments); and**
 - (i) **Income taxes within the scope of PBE IAS 12 *Income Taxes*.**
- 4.1. The scope of this Standard includes expenses arising from transactions relating to social welfare payments to individuals (such as unemployment and national superannuation benefits) and to the delivery of services to individuals and communities by central and local governments (such as health and education services), when they meet the definition of a transfer expense (see paragraph 6).
- 4.2. The transactions referred to in paragraph 4.1 are without a binding arrangement because individuals and communities do not have an enforceable obligation to central or local governments in return for the transfer of cash, goods or services.
5. A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:
 - (a) If the other Standards specify how to separately recognise and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially

¹ ED PBE IPSAS 43 *Leases*, published in August 2022, has not been issued as a final standard at the time of publication of ED PBE IPSAS 48 and is not referred to in ED PBE IPSAS 48. Therefore, this Standard references PBE IPSAS 13 rather than PBE IPSAS 43.

measured in accordance with other Standards and shall apply paragraphs 18–43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

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

Paragraphs AG2–AG3.2 provide additional guidance on the scope of this Standard.

Definitions

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

For the purposes of this Standard, a **binding arrangement** is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG11–AG29 provide additional guidance.)

From the perspective of a transfer provider, a **capital transfer** is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG53 provides additional guidance.)

The **stand-alone consideration** is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.

For the purposes of this Standard, the **transfer consideration** represents the total amount of resources² which an entity expects to transfer.

A **transfer expense** is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 8–9 provide additional guidance).

A **transfer obligation** is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

A **transfer obligation liability** is the liability recognised for the existence of one or more transfer obligations arising from a binding arrangement.

A **transfer provider** is an entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.

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

A **transfer right** is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A **transfer right asset** is the asset recognised for the existence of one or more transfer rights arising from a binding arrangement.

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

- (a) [Not used]
- (b) Compliance obligation;
- (c) Taxes; and
- (d) Third-party beneficiary.

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

Expenses are defined in PBE IPSAS 1 *Presentation of Financial Reports*.

² In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

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

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

Identifying the Transfer Expense Transaction

8. **An entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is derecognised when (or as) the entity's rights from the transfer arrangement are extinguished.³ For transfers which do not result in the recognition of an asset, a transfer expense is recognised:**

- (a) **When the entity loses control of the transferred resources; or**
- (b) **When the entity has incurred an obligation to transfer resources and recognises a liability for the obligation.**

The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.

9. An entity will apply the guidance on recognition and measurement in this Standard as follows:
 - (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18–20; and
 - (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21–43.

Paragraph AG10 provides additional guidance on identifying the transfer expense transaction.

Binding Arrangements and Enforceability

10. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.**
11. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.
12. A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable.
13. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors, and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.
14. A binding arrangement has at least one obligation because its enforceability holds the entity accountable for satisfying the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the transfer of resources.
15. When the binding arrangement is wholly unsatisfied, an entity shall not recognise any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

³ The asset may be derecognised at a point in time or over a period of time depending on the terms of the arrangement.

16. A binding arrangement is wholly unsatisfied if both of the following criteria are met:
- (a) The entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and
 - (b) The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

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

Combination of Binding Arrangements

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

Transfer Expenses from Transactions without Binding Arrangements

Recognition

18. For transfer expenses without binding arrangements, an entity shall recognise expenses as follows:
- (a) At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of PBE IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognised provision; or
 - (b) If a constructive or legal obligation to transfer resources does not exist (and therefore a provision is not recognised in accordance with paragraph 22 of PBE IPSAS 19), when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognises the resources it ceases to control in accordance with other Standards.

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

Measurement

19. When a provision is recognised in the situation described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.
20. When an entity recognises an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

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

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

Recognition of Transfer Expenses

22. When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognised, and a transfer right asset is recognised for the transfer rights arising from the binding arrangement.

Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

23. Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognised when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 35–37).

24. **For transfer expenses with binding arrangements, an entity shall recognise expenses:**

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

25. The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 21, the transfer right is extinguished when (or as) the entity no longer has enforceable rights in accordance with the binding arrangement.

Paragraphs AG35–AG49 provide additional guidance on the recognition of transfer expenses.

Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient

26. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. Where the entity has an enforceable and unconditional right to the receipt of cash or other financial assets arising from the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances, the entity shall derecognise the transfer right asset and recognise a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with PBE IPSAS 41. (See paragraph 43 for situations where a transfer right asset still exists but is impaired.)

Modifications to a Binding Arrangement

27. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes the existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement, or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the original binding arrangement until the modification to the binding arrangement is approved.
28. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions exist:
- (a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights (see paragraphs AG31–AG34), because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and
 - (b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.
29. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 28, an entity shall account for the modification to the binding arrangement as if it were a part of the original binding arrangement. The entity shall determine the accumulated transfer expense to be recognised as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined as at the date of the

modification and the accumulated transfer expense previously recognised shall be recognised in surplus or deficit as at the date of the modification.

Measurement

30. **An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see paragraphs 35–37).**
31. **When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.**
32. **When a transfer expense is recognised from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with paragraph 38.**
33. **When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.**
34. To determine the transfer consideration, an entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

Variable Consideration

35. The resources required to be transferred by a binding arrangement can vary for items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The resources can also vary if the entity's obligation to transfer the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the transfer recipient if it satisfies its obligations in the binding arrangement within a specified period.
36. For a transfer expense transaction, variable consideration in a binding arrangement may result in a liability of uncertain timing or amount, which meets the definition of a provision in PBE IPSAS 19.
37. If the entity has determined that it is more likely than not that a present obligation exists for the transfer of variable consideration, the entity shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.

Allocating the Transfer Consideration to Transfer Rights

38. **When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.**
39. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:
 - (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or
 - (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).⁴

⁴ This guidance is also applicable to a specific portion of variable consideration that can or cannot be identified with one or more transfer rights.

Paragraphs AG50–AG51 provide additional guidance on allocating the transfer consideration to transfer rights.

Changes in the Transfer Consideration

40. After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity is obligated to pay in the binding arrangement.
41. For a change in transfer consideration that did not arise from a modification to the binding arrangement, an entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognised as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.
42. An entity shall account for a change in the transfer consideration that arises from a modification to the binding arrangement in accordance with paragraphs 27–29.

Impairment of a Transfer Right Asset

43. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. When this occurs, and the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances do not support the recognition of a financial asset as noted in paragraph 26, the entity shall assess the transfer right asset for impairment in accordance with PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

Presentation

44. **For transfer expenses from transactions without binding arrangement, if an entity recognises a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in paragraphs 88, 94, and 107 of PBE IPSAS 1.**
45. **For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, an entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 22–23.**
46. An entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in paragraphs 76, 90, 91, and 94 of PBE IPSAS 1.
47. When a transfer right asset has been derecognised for non-performance and a financial asset has been recognised (see paragraph 26), the entity presents the financial asset in accordance with the requirements in PBE IPSAS 28 *Financial Instruments: Presentation*.
48. An entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in paragraphs 80 and 88 of PBE IPSAS 1.
49. As required by paragraph 109 of PBE IPSAS 1, an entity shall present, either on the face of the statement of comprehensive revenue and expense or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity. Paragraph 111 of PBE IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programmes, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programmes or purposes for which the transfers were made.

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

Disclosure

50. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of**

expenses and cash flows arising from transfer expense transactions. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:

- (a) Transfer expenses and related balances (see paragraphs 53–58);**
 - (b) Transfer arrangements (see paragraphs 59–60); and**
 - (c) The significant judgements, and changes in the judgements, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).**
51. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45–47 of PBE IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.
52. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of immaterial detail or the aggregation of items that have substantially different characteristics.

Transfer Expenses and Related Balances

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

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

54. In addition to the analysis of expenses, an entity shall provide qualitative and quantitative information on the material transfers arising from transactions with and without binding arrangements to enable users to understand how the entity's resources are spent on its programmes, activities, and services.

- *55. When a transfer right asset has been derecognised for non-performance and a financial asset has been recognised (see paragraph 26), the entity applies the disclosure requirements for financial assets from PBE IPSAS 30 *Financial Instruments: Disclosures*.

- RDR 55.1 When a transfer right asset has been derecognised for non-performance and a financial asset has been recognised (see paragraph 26), an entity applies the disclosure requirements for financial assets from PBE IPSAS 30 that are relevant to Tier 2 entities.

- *56. A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortised cost. Therefore, the disclosure requirements from PBE IPSAS 30 for payables are applicable to such liabilities.

- RDR 56.1 A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortised cost. Therefore, the disclosure requirements from PBE IPSAS 30 for payables that are relevant to Tier 2 entities are applicable to such liabilities.

- *57. If a liability has been recognised for variable consideration (see paragraphs 35–37), an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19.

- RDR 57.1 If a liability has been recognised for variable consideration (see paragraphs 35–37), an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19 that are relevant to Tier 2 entities.

- *58. For transfers from transactions without binding arrangements, when a liability is recognised for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19.

- RDR 58.1 For transfers from transactions without binding arrangements, when a liability is recognised for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in PBE IPSAS 19 that are relevant to Tier 2 entities.

Transfer Arrangements

59. An entity shall disclose information about its material transfer binding arrangements, including a description of the following:

- (a) The purpose of the transfer binding arrangements;
- *(b) Significant payment terms;
- (c) The nature of the resources that have been or will be transferred; and
- *(d) Significant risks and uncertainties relating to the realisation of transfer right assets.

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

60. An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements that are material, an entity shall disclose the following:

- (a) The purpose of the transfer arrangements;
- *(b) Significant payment terms, if any; and
- (c) The nature of the resources that have been or will be transferred.

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

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

61. An entity shall disclose the significant judgements, and changes in judgements, made regarding the recognition of transfer right assets from transfer expense transactions. In particular, an entity shall explain the basis for the recognition of its transfer right assets.

Commencement and Application

62. An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs 62.1–62.3. An entity that applies this Standard to an ‘early adoption accounting period’ shall disclose that fact in the notes.

When the Standard takes effect (section 27 Financial Reporting Act 2013)

- 62.1 This Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on [date] and takes effect on [date].

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

- 62.2 The accounting periods in relation to which this amending Standard commences to apply are:
- (a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.
 - (b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

- 62.3 In paragraph 62.2:

Early adopter means a reporting entity that applies this Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

- (a) That begins before the mandatory date but has not ended or does not end before this Standard takes effect (and to avoid doubt, that period may have begun before this Standard takes effect); and
- (b) For which the early adopter:
 - (i) First applies this Standard in preparing its financial report;
 - (ii) Applies PBE IPSAS 47 *Revenue* at the same time; and
 - (iii) Discloses in its financial report for that accounting period that this Standard has been applied for that period.

Mandatory date means [1 January 2029].

63. [Not used]

Transition

64. **An entity shall apply this Standard using one of the following two methods:**

- (a) **Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or**
- (b) **To each prior reporting period presented in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, as if this Standard had always been applied.**

Appendix A

Application Guidance

This Appendix is an integral part of PBE IPSAS 48.

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

- (a) Scope (paragraphs AG2–AG3.2);
- (b) Definitions (paragraphs AG4–AG9);
- (c) Identifying the Transfer Expense Transaction (paragraph AG10);
- (d) Binding Arrangements and Enforceability (paragraphs AG11–AG29);
- (e) Derecognition of the Transferred Resources (paragraph AG30);
- (f) Identifying Transfer Rights (paragraphs AG31–AG34);
- (g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35–AG49);
- (h) Allocating the Transfer Consideration to Transfer Rights (paragraphs AG50–AG51); and
- (i) Presentation and Disclosure (paragraph AG52); and
- (j) Application of Principles to Specific Transactions (paragraphs AG53–AG55).

Scope (paragraphs 2.1–5)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or other asset to another entity without directly receiving any good, service, or other asset in return.

AG3. This Standard does not address transactions where an entity receives any good, service, or other asset in return for the good, service, or other asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

AG3.1 When providing services to individuals and communities, central and local governments acquire resources and incur expenses, usually through contracts and other binding arrangements. Examples include the electricity used in delivering street lighting, the salaries paid to acquire the services of teachers, and the acquisition of non-current assets used in providing those services. These contracts and other binding arrangements are accounted for in accordance with other PBE Standards.

AG3.2 The recognition, measurement and disclosure requirements in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* apply to transfer expense transactions where specified in this Standard. However, the requirements in paragraphs 76–80 of PBE IPSAS 19 (relating to onerous contracts) can never be applicable to transfer expense transactions. This is because the definition of ‘onerous contract’ explicitly refers to the *exchange* of assets or services.

Definitions (paragraphs 6–7)

Binding Arrangement

AG4. An entity shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

Transfer Expense

AG5. This Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which the transfer provider (the entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organisation, an individual or another entity) without directly receiving any good, service, or other asset in return.

AG6. As noted in paragraph AG9, a transfer right asset is not considered a good, service, or other asset that is received directly from the transfer recipient.

Transfer Obligation and Transfer Obligation Liability

AG7. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations from a binding arrangement to transfer resources as transfer obligations. The liability recognised for the existence of one or more transfer obligations arising from a binding arrangement is referred to as a transfer obligation liability.

Transfer Recipient

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

Transfer Right and Transfer Right Asset

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

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

Identifying the Transfer Expense Transaction (paragraphs 8–9)

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

Binding Arrangements and Enforceability (paragraphs 10–16)***Binding Arrangement***

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

AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

AG13. In accordance with paragraph 11, the assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.

AG14. Binding arrangements confer both rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient satisfy its obligations. This Standard refers to these rights as transfer rights.

Enforceability

AG15. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.

AG16. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG17. An arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:

- (a) Distinct rights and obligations for each involved party; and
- (b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.

AG18. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG20. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the agreed-upon obligations in the arrangement.

AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.

AG22. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However,

if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.

AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.

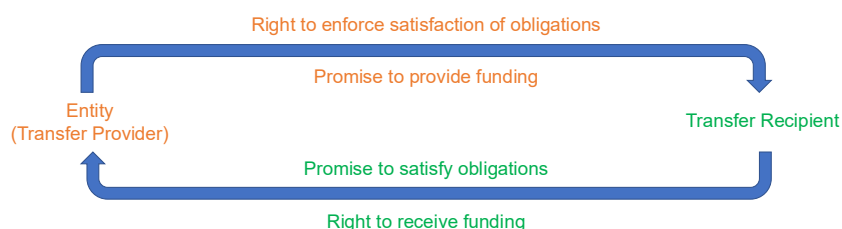
AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgement based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.

AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with PBE IPSAS 19.

Parties in a Binding Arrangement

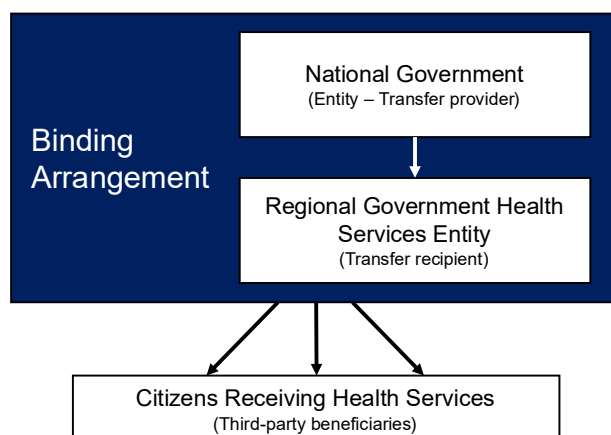
AG26. Arrangements in the not-for-profit and public sector may include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

AG27. That is, at a minimum, the entity must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



AG28. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services.

AG29. However, for these multi-party arrangements to be classified as transfer expenses with binding arrangements, the entity must have the ability to compel the transfer recipient to deliver goods, services, or other assets to the third-party beneficiaries. In these multi-party arrangements, the transfer recipient is not an agent of the entity because the transfer recipient gains control of the resources from the entity and is responsible for providing goods, services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram.



Derecognition of the Transferred Resources (paragraphs 18 and 22)

AG30. For both transfer expenses transactions with and without binding arrangements:

- (a) Prior to the transfer of a non-financial asset to a transfer recipient, the entity should consider paragraph 27(d) of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment;
- (b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets is assessed continuously in accordance with the requirements of PBE IPSAS 41 *Financial Instruments*; and
- (c) When the transferred resources are derecognised, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

Identifying Transfer Rights (paragraph 21)

AG31. Transfer rights provide the basis of the timing of recognition for transfer expenses. This Standard requires transfer expenses with binding arrangements to be recognised as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.

AG32. A transfer right is identified as a distinct right that can be enforced separately from other rights in the binding arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.

AG33. The entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.

AG34. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligations that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs 22–25)

Recognition at Inception of a Binding Arrangement

AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognise any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.

AG36. Individual transfer rights and transfer obligations are recognised as items (assets, liabilities and expenses depending on their nature) only when or as one or more parties to the binding arrangement satisfy their stated obligations. An entity shall account for these items in accordance with paragraphs 22–25.

AG37. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognise any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Derecognition of the Transfer Right Asset

AG38. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the entity's corresponding transfer right is extinguished.

AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.

AG40. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgement.

AG41. In some situations, a transfer right asset may be derecognised when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26). A transfer right asset may also be derecognised if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG15).

AG42. If the entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognised upon the transfer of resources.

Recognition of a Transfer Obligation Liability

AG43. If the transfer recipient has satisfied its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date. As the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognises a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognised liability.

AG44. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.

AG45. In some binding arrangements, an entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement. If an entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to satisfy its obligations as promised), the binding arrangement (or other laws)

might entitle the transfer recipient to continue to satisfy its obligations and require the entity to pay the consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the entity to satisfy its transfer obligations.

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

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

Interaction Between Transfer Right Assets and Transfer Obligation Liabilities

AG48. After recognition, the transfer right asset shall be increased by the carrying amount of additional resources transferred and decreased by the amount of expenses or any impairment recognised, until the carrying amount of the transfer right asset is zero. At that point, any further satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.

AG49. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognised and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognised as a transfer right asset.

Allocating the Transfer Consideration to Transfer Rights (paragraphs 38–39)

AG50. Where a binding arrangement specifies the amount of stand-alone consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).

AG51. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.

Presentation and Disclosure (paragraphs 44–61)

AG52. Paragraph 49 requires transfer expenses to be included in the analysis of expenses, either presented on the face of the statement of comprehensive revenue and expense or disclosed in the notes. To meet this requirement and the disclosure objective in paragraph 50, an entity shall provide sufficient information in the analysis of expenses, along with a description of the nature of the entity's operations and principal activities as required by paragraph 150 of PBE IPSAS 1 *Presentation of Financial Reports*, to enable users to understand how the entity's resources are spent on its programmes, activities and services.

Application of Principles to Specific Transactions

Capital Transfers

AG53. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.

AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21–25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately

account for each transfer right by applying paragraphs 22–25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon the transfer of resources, the entity typically recognises a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

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

Appendix B

Amendments to Other PBE Standards

An entity shall apply the amendments in this appendix when it applies PBE IPSAS 48.

The amendments to other standards in this appendix are based on the text of those other standards, including any amendments to those standards approved when PBE IPSAS 48 was issued in [Date].

PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Paragraph 17 is amended, and paragraph 72.8 is added. New text is underlined, and deleted text is struck through.

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Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g., prepaid rent); transfer right assets; goodwill; intangible assets; inventories; property, plant, and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

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~~Effective Date~~ Commencement and application

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72.8. PBE IPSAS 48, issued in [date], amended paragraph 17. An entity shall apply that amendment when it applies PBE IPSAS 48.

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PBE IPSAS 12 *Inventories*

Paragraphs 11, 17, 43, and 44 are amended, and paragraph 52.8 is added. New text is underlined, and deleted text is struck through.

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Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for donation to schools or by a charity for donation to the public. In many entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. ...

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Measurement of Inventories

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17. Inventories shall be measured at cost, adjusted when applicable for any loss of service potential where they are held for:

- (a) Distribution at no charge (a transfer expense) or for a nominal charge; or
- (b) Consumption in the production process of goods or the rendering of services to be distributed at no charge (a transfer expense) or for a nominal charge.

...

Distributing Goods at No Charge or for a Nominal Charge

43. An entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when an entity has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

Recognition as an Expense

44. When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue (*i.e.*, the transaction gives rise to a transfer expense), the expense is recognised ~~when the goods are distributed or the related service is rendered in accordance with PBE IPSAS 48 *Transfer Expenses*~~. The amount of any writedown of inventories and all losses of inventories shall be recognised as an expense in the period the writedown or loss occurs. The amount of any reversal of any writedown of inventories shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

...

Effective DateCommencement and application

...

52.8. PBE IPSAS 48 *Transfer Expenses*, issued in [date], amended paragraphs 11, 17, 43 and 44. An entity shall apply those amendments when it applies PBE IPSAS 48.

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PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

Paragraphs 2.2 and 11.1–11.3 are deleted and paragraphs 34.1 (and the preceding heading), 34.2 and 112.13 are added. New text is underlined, and deleted text is struck through.

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Scope

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2.2 ~~The Crown shall not apply this Standard in accounting for obligations expressed in legislation that have characteristics similar to an executory contract.~~ [Deleted by NZASB]

...

The Crown

~~11.1 Obligations of the Crown expressed in legislation that have characteristics similar to an executory contract are those where:~~

- (a) ~~The Crown is obligated to provide goods, services or transfers to the community in future periods using funding to be obtained from the community substantially in those future periods; and~~
 - (b) ~~The intended third party recipients of the goods, services or transfers have not yet satisfied the criteria for entitlement to those goods, services or transfers.~~
- 11.2 ~~These obligations of the Crown have characteristics similar to executory contracts in that the community will, collectively, provide funds to the Crown in the future under tax legislation, and the Crown will, in return, provide goods, services or transfers to the community in the future. Such obligations of the Crown include obligations to make future social welfare payments (such as to pay unemployment, domestic purposes and national superannuation benefits) and to deliver future health and education services, to the extent that the substantial funding of those benefits will be met through future taxation and other revenues and the intended recipients have not already satisfied the criteria for entitlement to those benefits. However, such obligations exclude the obligation of the Crown to fund future payments by the Government Superannuation Fund since the recipients of those future payments have already performed services giving rise to obligations.~~
- 11.3 ~~The exclusion from the application of this Standard of obligations of the Crown that have characteristics similar to an executory contract is not intended to achieve a different result, in terms of the Crown's recognition of liabilities, from the practice followed at the date of introduction of this Standard to recognise liabilities only where the recipients of benefits to be provided in the future have already satisfied the criteria for entitlement to those benefits. [Deleted by NZASB]~~

...

Recognition

Provisions

...

Recognition of liabilities arising from central and local government existing public policies, budget policies, election promises or statements of intent

- 34.1 This paragraph and paragraph 34.2 relate to the recognition by a central or local government of a liability arising from a local government or central government existing public policy, budget policy, election promise or statement of intent. The intention of such entities to provide goods, services or cash transfers to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation. A liability would be recognised only when the entity is committed in the sense that it has little or no realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. For example, a present obligation for social welfare payments at the reporting date arises only when the intended recipients have satisfied the criteria for entitlement to those payments for a payment period that occurs before or encompasses the reporting date.
- 34.2 Under certain circumstances, a legal or constructive obligation may arise from transactions or events where the central or local government has little, if any, realistic alternative to avoid an outflow of resources embodying economic benefits or service potential. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster where, following such an event, a government has issued a clear and formal policy to provide financial aid to victims of that disaster, with such a policy containing sufficiently specific details to have raised a valid expectation in those affected that the government will provide this aid. However, the liability is recognised only when the amount of financial aid to be provided can be measured reliably.

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112.13. PBE IPSAS 48 Transfer Expenses, issued in [date], added paragraphs 34.1–34.2 and deleted paragraphs 2.2 and 11.1–11.3. An entity shall apply those amendments when it applies PBE IPSAS 48.

Paragraphs BC8–BC16 and the related heading are added. New text is underlined.
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Basis for Conclusions

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PBE IPSAS 48 Transfer Expenses

BC8. In May 2023, the IPSASB issued IPSAS 48 *Transfer Expenses*. In [Date], the NZASB issued PBE IPSAS 48 *Transfer Expenses*.

BC9. As discussed in paragraphs BC2–BC3, the NZASB decided to retain the scope exclusion in paragraph 2.2 in relation to certain obligations of the Crown while IPSASB projects relating to social benefits and the development of a conceptual framework were in progress. The IPSASB has since completed both projects.

(a) *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB Conceptual Framework) was issued in October 2014.

(b) IPSAS 42 *Social Benefits* was issued in January 2019.

BC10. In addition to the abovementioned projects, in January 2020, the IPSASB issued *Collective and Individual Services (Amendments to IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets)*. This amending standard complements IPSAS 42 and adds application guidance paragraphs to IPSAS 19 which:

(a) define collective and individual services¹ and explain how they differ from social benefits; and

(b) specify that no provision is to be recognised for a government's intention to provide collective services or individual services. The rationale for this accounting treatment is that these services are ongoing activities of a government, and no provision is recognised for ongoing activities.

BC11. The NZASB issued the *Public Benefit Entities' Conceptual Framework*, based on the IPSASB Conceptual Framework, in May 2016. However, the NZASB decided not to develop a PBE Standard using IPSAS 42 as a starting point, nor to develop a domestic standard on the topic of social benefits². Instead, social benefit transactions are included within the scope of PBE IPSAS 48. Likewise, the NZASB decided not to develop amendments to PBE IPSAS 19 using *Collective and Individual Services* as a starting point, as such a development would likely not lead to significant improvements in the quality of financial reporting by public benefit entities and the costs of implementation would likely outweigh the benefits.

BC12. In light of the decisions noted in paragraph BC11 above, as well as the development of PBE IPSAS 48, the NZASB reviewed the continuing relevance of the existing scope exclusion relating to certain obligations of the Crown as well as the associated guidance in paragraphs 11.1–11.3. The NZASB decided that it would be redundant to retain this scope exclusion and associated guidance because the scope of PBE IPSAS 48 includes social welfare payments and services provided by the central and local governments, when these transactions meet the definition of a transfer expense. Consequently, the NZASB deleted paragraphs 2.2 and 11.1–11.3.

BC13. The NZASB considered whether authoritative guidance should be added to PBE IPSAS 19, to replace the abovementioned deleted paragraphs. The NZASB decided that it would be useful to add authoritative guidance to PBE IPSAS 19 to address the relevant principles that apply to the transactions contemplated in the scope exclusion because:

(a) the abovementioned transactions, when in scope of PBE IPSAS 48, are accounted for as transactions without binding arrangements. This is because individuals and communities do not have an enforceable obligation to central and local governments in return for the resources.

(b) for transactions without binding arrangements, PBE IPSAS 48 requires entities to consider whether there is a legal or constructive obligation which gives rise to a provision under PBE IPSAS 19. In the absence of the existing scope exclusion (and the associated guidance in paragraphs 11.1–11.3), there is no specific application guidance that would apply to these transactions. Developing such

¹ Collective services are those provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole. Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

² See paragraphs BC8–BC20 in PBE IPSAS 48 for the basis for conclusions for these decisions.

authoritative guidance for inclusion in PBE IPSAS 19 may be useful to entities in making judgements on whether or not a legal or constructive obligation exists.

BC14. In developing the authoritative guidance referred to in paragraph BC13 above, the NZASB considered the following.

- (a) The principle in paragraph 25 in PBE IPSAS 19 – that is, ... *for an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only (a) where settlement of the obligation can be enforced by law; or (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.*
- (b) The requirements in IPSAS 42.
- (c) The authoritative guidance in paragraphs Aus26.1–Aus26.2 in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. This guidance addresses the recognition of liabilities arising from local government or central government existing public policies, budget policies, election promises or statements of intent and explicitly states that such a liability *would be recognised only when the entity is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits.*

BC15. The NZASB decided to follow a similar approach to the AASB, because:

- (a) paragraphs Aus26.1–Aus26.2 contain authoritative guidance drawing on the principles of AASB 137; and
- (b) these principles are substantively aligned with those in PBE IPSAS 19, in particular, with the principle noted in paragraph BC14(a).

BC16. Consequently, the NZASB added paragraphs 34.1–34.2. These paragraphs were developed using paragraphs Aus26.1–Aus26.2 as a starting point, with modifications to suit the New Zealand context and to align with the specific wording used in paragraph 25 in PBE IPSAS 19.

The footnote to paragraph BC2 is deleted.

* ~~The IPSASB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in October 2014, and the NZASB issued the *Public Benefit Entities' Conceptual Framework* in May 2016.~~

PBE IPSAS 28 *Financial Instruments: Presentation*

Paragraph 62.9 is added and paragraph AG23 is amended. New text is underlined and deleted text is struck through.

...

Effective DateCommencement and application

...

62.9. PBE IPSAS 48 *Transfer Expenses*, issued in [date], amended paragraph AG23. An entity shall apply that amendment when it applies PBE IPSAS 48.

Application Guidance

...

Definitions (paragraphs 9–12)*Financial Assets and Financial Liabilities*

...

AG23. Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with PBE IAS 12 *Income Taxes*.
- Obligations to provide social welfare benefits ~~payments~~ are accounted for in accordance with ~~PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* and PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*~~ PBE IPSAS 48 *Transfer Expenses*.
- Other statutory obligations are accounted for in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

...

PBE IPSAS 40 *PBE Combinations*

Paragraphs IE164, IE165, IE264 and IE265 are amended, and paragraph IE266 is deleted. New text is underlined, and deleted text is struck through.

...

Illustrative Examples

...

Accounting for Amalgamations

...

Eliminating Transactions between the Combining Operations – Transfers*Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of PBE IPSAS 40*

...

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognised a liability of CU350 in respect of its performance obligation, in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. ~~Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognise an asset in respect of the grant, but accounted for the full CU700 as an expense.~~ Upon the transfer of funds, COA recognised a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognises CU350 of the transfer right asset and recognises the amount as a transfer expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party or an enforceable right to have an external party deliver training courses. ~~The resulting entity does not recognise a liability for the CU350, but instead recognises this amount in net assets/equity.~~

...

IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognised a liability of CU600 in respect of its performance obligation, in accordance with PBE IPSAS 23. ~~Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognise an asset in respect of the grant, but accounted for the full CU800 as an expense.~~ Upon the transfer of funds, AE recognised a transfer right asset for its right to have TE deliver the training courses. Immediately prior to the acquisition, based on TE's performance to date, AE derecognises

CU200 of the transfer right asset and recognises the amount as a transfer expense.

IE265. ~~In this example, AE calculates a gain of CU600. The gain is calculated as the liability assumed that is derecognised because, as a result of the acquisition, AE eliminates the liability of CU600 against the transfer right asset of CU600, as there is no longer an obligation owed to a third party or the enforceable right to have an external party deliver training courses.~~

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

...

XRB A1 Application of the Accounting Standards Framework

The accounting standards table in Appendix C is amended. New text is underlined.

APPENDIX C

Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements to be applied by public benefit entities

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the accounting standards and authoritative notices that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs.

Accounting standards

(...)

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 48 *Transfer Expenses*

PBE IFRS 4 *Insurance Contracts* (superseded on adoption of PBE IFRS 17)

(...)

Basis for Conclusions

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

Background: IPSAS 48 *Transfer Expenses*

- BC1. In May 2023, the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 48 *Transfer Expenses*. IPSAS 48 sets out the accounting requirements for a major area of expenditure for governments and other public sector entities. Prior to IPSAS 48, there was no explicit guidance on how to account for transfer expenses in the IPSASB's literature. This lack of guidance led to ambiguity and potential inconsistencies in the accounting for transfer expenses, as entities needed to develop their own accounting policy for these transactions.
- BC2. Under IPSAS 48, the transfer provider's accounting for transfer expenses is driven by whether the transaction results in an enforceable right to have the transfer recipient satisfy their obligations. Such an enforceable right is recognised as an asset and subsequently expensed as the enforceable right is extinguished.
- BC3. The identification of whether the transaction arises from a binding arrangement impacts the determination of whether the transaction results in the recognition of an asset, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria. IPSAS 48 introduces two accounting models: one for transfer expenses with binding arrangements and one for transfer expenses without binding arrangements. IPSAS 48 includes comprehensive guidance for an entity to determine whether their transaction arises from a binding arrangement and, consequently, which accounting model in the Standard to apply.

NZASB decision to develop PBE IPSAS 48 *Transfer Expenses*

- BC4. Following the issue of IPSAS 48, the New Zealand Accounting Standards Board (NZASB) decided to develop a PBE Standard using IPSAS 48 as a starting point. The NZASB noted that developing such a PBE Standard would be in accordance with New Zealand's Accounting Standards Framework. The NZASB also noted the following:
- (a) The IPSASB's reasons for developing IPSAS 48, as described in paragraph BC1 above, also justify the introduction of these requirements into PBE Standards.
 - (b) The concept of a 'binding arrangement' is prevalent throughout IPSAS literature, most notably in IPSAS 47 *Revenue*⁵. As PBE Standards are primarily based on IPSAS, developing a PBE Standard using IPSAS 48 as a starting point would enhance the coherence of the suite of PBE Standards, whereas not doing so would negatively impact on coherence.
 - (c) The accounting for transfer expenses is a topic which primarily concerns public benefit entities and there is no specific for-profit accounting standard for this topic. Developing a PBE Standard using IPSAS 48 as the starting point is, therefore, likely to have a neutral impact on mixed groups.
 - (d) The expected costs to be incurred by constituents include those predominately occurring upon transition to PBE IPSAS 48 (such as the investment of time and resources into understanding the new accounting requirements) as well as those that are expected to occur on an ongoing basis (such as the need to apply significant judgement in the application of the principles to each new arrangement, or when an arrangement is modified). The NZASB considers that the benefits of developing a PBE Standard using IPSAS 48 as the starting point, as described in paragraph BC4(a)–(b) are expected to exceed these costs.
- BC5. In developing PBE IPSAS 47 *Revenue* and PBE IPSAS 48, the NZASB received feedback from a PBE Working Group, consisting of individuals with a practical accounting background in public sector and not-for-profit reporting. The objective of this group was for members to share their practical insights and expertise in the public and not-for-profit sectors to assist the NZASB with the development of PBE IPSAS 48 and PBE IPSAS 47. Through discussions with the PBE Working Group and other work performed to understand the New Zealand jurisdictional framework and legal context, the NZASB

⁵ A PBE Standard developed using IPSAS 47 as a starting point has been exposed for comment at the same time as ED PBE IPSAS 48.

concluded that the fundamental accounting principles in IPSAS 48 were generally appropriate for application by both public sector and not-for-profit public benefit entities in New Zealand.

- BC6. Following its review of the fundamental accounting principles in IPSAS 48, the NZASB considered the nature and extent of modifications to be made to IPSAS 48 to ensure that PBE IPSAS 48 is fit-for-purpose in New Zealand. The NZASB consulted the PBE Working Group on existing issues with the accounting for revenue and transfer expenses in practice, as well as potential implementation issues relating to the requirements in IPSAS 48. The NZASB also considered comments from New Zealand constituents on the IPSASB ED 72 *Transfer Expenses* (which was issued for public consultation in 2020) as well as the adoption status of other IPSASs in New Zealand (such as IPSAS 42 *Social Benefits*). Some of the resulting modifications to IPSAS 48 are relatively minor, to ensure coherence within the suite of PBE Standards (e.g., aligning terminology with other PBE Standards) as well as to ensure the not-for-profit context is acknowledged within PBE IPSAS 48. Additionally, disclosure concessions for Tier 2 public benefit entities have been included. The more substantive modifications considered or made by the NZASB in developing PBE IPSAS 48 are outlined in paragraphs BC7–BC28.

Scope modification: social welfare payments to individuals and the delivery of services to individuals and communities by central and local governments

- BC7. The NZASB did not retain the scope exclusion in IPSAS 48 relating to social benefits as defined in IPSAS 42 *Social Benefits*. Consequently, social benefit transactions are within the scope of PBE IPSAS 48 if they meet the definition of a transfer expense. This decision is explained further in paragraphs BC8–BC20 below.

The NZASB’s decision on IPSAS 42

- BC8. IPSAS 42 defines social benefits⁶ and includes requirements for the recognition and measurement of social benefit transactions. IPSAS 42 also includes disclosure requirements that will provide additional information that users may need to evaluate the effect that social benefits have on a government’s finances.
- BC9. At the time IPSAS 42 was issued in January 2019, the IPSASB had not yet completed other related projects dealing with non-exchange expenses – specifically, its projects on Transfer Expenses and Collective and Individual Services. Therefore, when IPSAS 42 was issued, the NZASB decided to defer its decision on whether to develop a PBE Standard using IPSAS 42 as a starting point, until those other projects were completed. Similarly, when the IPSASB issued the amending standard *Collective and Individual Services (Amendments to IPSAS 19)* in January 2020, the NZASB also decided to defer its decision on whether to develop equivalent amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* until the project on Transfer Expenses was completed⁷.
- BC10. Once IPSAS 48 was issued in May 2023, the NZASB revisited the decision on whether or not to develop a PBE Standard using IPSAS 42 as a starting point. The NZASB decided not to do so, as such a development would likely not lead to significant improvements in the quality of financial reporting by public benefit entities.
- BC11. In line with its established due process, upon deciding not to develop a PBE Standard using IPSAS 42 as a starting point, the NZASB was required to consider what, if any, action(s) it planned to take in relation to the IPSAS – specifically, whether a domestic standard would be developed and whether parts of the IPSAS would be incorporated into that domestic standard. The NZASB decided that the costs to implement such a domestic standard would outweigh the benefits of doing so. In making this decision, the NZASB took the following into account.

⁶ Social benefits are cash transfers provided to: (a) specific individuals and/or households who meet eligibility criteria; (b) mitigate the effect of social risks; and (c) address the needs of society as a whole.

Social risks are events or circumstances that: (a) relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and (b) may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

⁷ Refer to the Basis for Conclusions in PBE IPSAS 19 for further discussion on *Collective and Individual Services (Amendments to IPSAS 19)*.

- (a) The absence of a specific PBE Standard for social benefits has not resulted in significant diversity in accounting practice.
- (b) No concerns with the existing reporting of social benefits in New Zealand have come to the NZASB's attention.

Decision to include social benefit transactions within the scope of PBE IPSAS 48

BC12. Currently, in the absence of a specific PBE Standard for social welfare payments and services provided by central and local governments (hereafter referred to as 'social benefit transactions'), public sector entities entering into such transactions followed the requirements of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing an appropriate accounting policy. In developing such a policy, entities were required to consider first the applicability of the requirements in PBE Standards dealing with similar and related issues. Currently, PBE IPSAS 19 is the PBE Standard which deals with 'similar and related issues' to social benefit transactions. However, the development of PBE IPSAS 48 required the NZASB to consider whether this Standard:

- (a) is more appropriate to be used as a basis for an accounting policy for social benefit transactions; or
- (b) in the absence of a specific scope exclusion, would be directly applicable to social benefit transactions.

BC13. The NZASB considered how the requirements in PBE IPSAS 48 would apply to social benefit transactions and concluded that:

- (a) Social benefit transactions would typically meet the definition of a transfer expense.
- (b) Such transactions would be without binding arrangements because individuals and communities do not have an enforceable obligation to central or local governments to deliver cash, goods or services in return for the resources received.
- (c) For transfer expenses without binding arrangements, an entity must consider whether there is a legal or constructive obligation to transfer resources which results in the recognition of a provision in accordance with paragraph 22 of PBE IPSAS 19. Such a provision would be initially and subsequently measured in accordance with paragraphs 44–72 of PBE IPSAS 19.

BC14. The NZASB considers that current accounting practice in New Zealand with respect to social benefit transactions is unlikely to change significantly as a result of applying the requirements of PBE IPSAS 48. This is an appropriate outcome, for the reasons noted in paragraph BC11(a)–(b). Therefore, the NZASB decided not to include a scope exclusion similar to the one in IPSAS 48 (as noted in paragraph BC7).

Addition of explanatory paragraphs

BC15. To emphasise the application of PBE IPSAS 48 to social benefit transactions – and how the fundamental principle of a 'binding arrangement' applies to these transactions – the NZASB added paragraphs 4.1–4.2. These paragraphs clarify that such transactions are included within the scope of the Standard when they meet the definition of a transfer expense and are accounted for as transactions without binding arrangements.

BC16. Paragraphs 4.1–4.2 reference the delivery of services to individuals and communities by central and local governments, since such transactions would likely be within the scope of PBE IPSAS 48. However, central and local governments would typically acquire resources and incur expenses through contracts and other binding arrangements in order to deliver these services. These contracts and other binding arrangements would be accounted for in accordance with other PBE Standards. To clarify this, the NZASB added paragraph AG3.1.

Consideration of the disclosure requirements in IPSAS 48 (as they would apply to social benefit transactions)

BC17. IPSAS 48 was not developed with social benefit transactions in mind. Therefore, the NZASB considered whether the presentation and disclosure requirements in IPSAS 48 are appropriate in the context of social benefit transactions in New Zealand. As noted in paragraph BC11, the NZASB is not aware of any concerns with the existing reporting of these transactions (which includes presentation and disclosure).

BC18. In accordance with legislative requirements and the service performance reporting requirements within PBE Standards, information on social benefit transactions is reported in the annual reports of relevant public sector agencies. However, the NZASB noted that only the New Zealand Government (i.e. the Crown) presents and discloses this information (in particular, around social welfare payments) within the scope of its annual financial statements. The NZASB considered the disclosure requirements in IPSAS 48 that would apply to social benefit transactions and concluded that most of those requirements are either:

- (a) consistent with presentation and disclosure requirements in other PBE Standards; or
- (b) aligned with the information presented or disclosed in the Crown annual financial statements in accordance with NZ Treasury's accounting policies.

BC19. The NZASB identified two disclosure requirements which would require additional information on social benefit transactions to be disclosed in the Crown annual financial statements.

- (a) Paragraph 54 – which requires an entity to provide qualitative and quantitative information on significant transfers arising from transactions with and without binding arrangements.
- (b) Paragraph 60 – which requires an entity to disclose the purpose of its transfers without a binding arrangement as well as significant payment terms (if any) and the nature of the resources that have been (or will be) allocated.

BC20. The NZASB noted that including this additional information on social benefit transactions in the Crown annual financial statements may add significant length to the financial statements for potentially little benefit, since users may already have access to much of this information through other sources. Therefore, the NZASB considered the following options.

- (a) *Exempt preparers from making these disclosures with respect to social benefit transactions.* This would effectively be a Crown-specific scope exclusion, as it is only in the Crown annual financial statements that information about social benefit transactions can be found. For this reason, the NZASB did not consider this to be an appropriate course of action to take.
- (b) *Permit cross-referencing from the financial statements to some other statement or report that is available to users of the financial statements on the same terms as the financial statements and at the same time.* This option would be helpful to those users who have never engaged with the information available in those other sources, while limiting the additional information to be included in the financial statements. However, the NZASB considers it important that the financial statements be complete – that is, they should include all material information, rather than incorporate this information through cross-referencing.
- (c) *Emphasise the application of materiality to the judgements on the nature and extent of the disclosures required under PBE IPSAS 48.* The NZASB considered this to be the most appropriate course of action to take to limit the disclosure of information in excess of what users require. The NZASB noted that paragraphs 51–52 in IPSAS 48 refer entities to the requirements in IPSAS 1 *Presentation of Financial Statements* which provide guidance on materiality and aggregation. IPSAS 1 is equivalent to PBE IPSAS 1 *Presentation of Financial Reports* in this regard. The NZASB decided not to incorporate those requirements in PBE IPSAS 1 into PBE IPSAS 48, because paragraphs 51–52 already contain some of the key points from that Standard that entities should consider in making their materiality judgements. However, to further emphasise the need to apply materiality judgements to the nature and extent of disclosures required under PBE IPSAS 48, the NZASB decided to:
 - (i) add the word 'material' to paragraphs 59 and 60; and
 - (ii) replace the word 'significant' with the word 'material' in paragraphs 52 and 54. 'Material' is a defined term in PBE Standards, whereas 'significant' is not defined in any PBE Standard. Similarly, the NZASB decided to replace the word 'insignificant' with the word 'immaterial' in paragraph 52. In contrast, the NZASB did not replace references to 'significant payment terms' and 'significant judgements' where they appear in PBE IPSAS 48. Such terms appear in other PBE Standards, as well as in the for-profit suite of standards and the NZASB does not wish to imply that the meaning of these terms in PBE IPSAS 48 differs from the meaning in those other Standards.

Appropriations

BC21. The NZASB discussed the requirements relating to appropriations in IPSAS 48 (contained in the Implementation Guidance Section B.3 and demonstrated in Illustrative Example 4). It was noted in Implementation Guidance Section B.3 that appropriations are defined in IPSAS 24 *Presentation of Budget Information in Financial Statements* as an authorisation granted by a legislative body (i.e. the enabling authority) to allocate funds for purposes specified by the legislature or similar authority. IPSAS 24 does not form part of PBE Standards.

BC22. The NZASB decided to:

- (a) remove the reference to the appropriations definition in IPSAS 24 from PBE IPSAS 48 Implementation Guidance Section B.3.
- (b) align the description of appropriations with the New Zealand legislative framework by rewording the description as “an authorisation granted by a legislative body (i.e. the enabling authority) to allocate funds incur expenses or capital expenditure for the purpose specified by the legislature or similar authority” – i.e. removing the struck-through words and adding the underlined words.

BC23. Additionally, the NZASB noted that ‘appropriation’ is not defined in PBE Standards but that the interpretation of the term should be consistent with its assigned meaning under New Zealand legislation, specifically per the Public Finance Act 1989.

Other modifications to IPSAS 48

BC24. The NZASB made the following additional modifications to IPSAS 48:

Definition of a binding arrangement

BC25. IPSAS 48 does not include a definition for ‘binding arrangement’. Instead, IPSAS 48 refers entities to IPSAS 47 for this definition. The NZASB decided to include the definition in PBE IPSAS 48, due to the importance of the binding arrangement principle in the accounting for transfer expenses and to minimise the need for entities to refer to other PBE Standards to understand the requirements in PBE IPSAS 48.

Application of the onerous contract accounting requirements to transfer expense transactions

BC26. The definition of an ‘onerous contract’ explicitly refers to the exchange of assets or services. The IPSASB considered whether IPSAS 48 should explicitly state that onerous contracts are not applicable to transfer expenses. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that a transfer expense could not meet the definition of an ‘onerous contract’. Therefore, the IPSASB decided not to add an explicit scope exclusion to IPSAS 48.

BC27. In feedback to the IPSASB on ED 72, the NZASB and one New Zealand constituent questioned what the transfer provider would do if the binding arrangement became onerous. In light of this feedback, the NZASB decided that the implicit scope exclusion could be made clearer for New Zealand stakeholders and therefore added paragraph AG3.2.

Amendment to paragraph 18 – concerning the recognition of transfer expenses from transactions without binding arrangements

BC28. The NZASB noted that paragraph 18(b) could be more explicit in stating that if no provision is recognised, then an expense is recognised when the entity ceases to control the resources. Therefore, NZASB modified paragraph 18(b) as follows (additional wording underlined) – *if a constructive or legal obligation to transfer resources does not exist (and therefore a provision is not recognised in accordance with paragraph 22 of PBE IPSAS 19), when the entity ceases to control the resources; ...*

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 48.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a ‘capital transfer’?

It depends on what the binding arrangement requires the transfer recipient to do with the asset.

A transfer of a physical asset is a ‘capital transfer’ if the entity transfers the physical asset within a binding arrangement and the transfer recipient is required by the binding arrangement to use the physical asset received to acquire or construct another non-financial asset that it will subsequently control. A transfer of a physical asset which only has a requirement to be used or operated in specific manner would not meet the definition of a ‘capital transfer’.

Section B: Identifying the Transfer Expense Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public benefit entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the parties in the arrangement, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of transfer expenses to ensure fair presentation of such transactions.

Correctly identifying whether or not the transfer expense transaction arises from a binding arrangement is integral to correctly applying this Standard. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its transfer expense transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 10–16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party’s rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

- (a) The substance, rather than the form, of the arrangement;
- (b) Terms that are written, oral, or implied by an entity’s customary practices;
- (c) Whether it is legally binding through legal (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence) or equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

- (d) Consequences of not satisfying the obligations in the arrangement;
- (e) The specific jurisdiction, sector, and operating environment; and
- (f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG15–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Transfers Subject to Appropriations

Can an appropriation give rise to a transfer expense?

An appropriation is an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure for purposes specified by the legislature or similar authority.

An appropriation itself typically does not result in an accounting event or transaction. However, like other transfers that do not arise from a binding arrangement, there may be situations when an appropriation, in combination with external announcements or other communications, may create a valid expectation with other parties that the entity which approved the allocation of funds is accepting and discharging certain responsibilities. In these situations, PBE IPSAS 19 *Provisions, Contingent Liabilities, and Contingent Assets*, is applicable, and a provision is recognised if a legal or constructive obligation exists. If an appropriation does not give rise to a legal or constructive obligation, the entity accounts for the subsequent transfer by applying the principles in this Standard.

How should an entity consider the impact of appropriations on its transfer expense transactions arising from binding arrangements?

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

A binding arrangement may specify that the resources to be transferred to a transfer recipient by an entity are subject to an appropriation process being completed by an unrelated third-party in accordance with the laws and regulations in the jurisdiction. The entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity.

If the limitation (that the resources to be transferred are subject to an appropriation) has substance, the arrangement is not enforceable and thus not a binding arrangement, as the transfer recipient cannot establish an enforceable right to those resources before the appropriation process is completed.

In other circumstances, a transfer that is subject to appropriations could still be enforceable if the arrangement is set up in a way that the mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity, prior to the appropriation process being completed.

In some jurisdictions, the authorisation for a transfer of resources may go through a multiple step process. For example:

- (a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of an entity;
- (b) The exercise of that authority has occurred. In essence, a decision by the approved enabling authority clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the entity has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and
- (c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority, together with the exercise of that authority, may be sufficient for an entity to conclude that the transfer recipient has an enforceable right to those resources in the arrangement that enables the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose non-compliance requirements on the entity, prior to the completion of the appropriation process. In such circumstances, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when an entity has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 7. If it meets the definition, the entity accounts for the transfer expense arising from the binding arrangement in accordance with paragraphs 21–43.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

- (a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and
- (b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with this Standard, PBE IPSAS 19 or PBE IPSAS 41 *Financial Instruments*.

Section C: Transfer Expenses from Transactions without Binding Arrangements

C.1 Accounting for Transfers Arising from Transactions without Binding Arrangements

When the entity transfers resources in a transaction without binding arrangements, is it possible for the transfer to result in the recognition of a transfer right asset?

No. Because a transfer right asset is defined as an asset recognised for the existence of one or more transfer rights arising from a binding arrangement, it will not be possible to recognise a transfer right asset without a binding arrangement.

However, it is possible for an entity to have an enforceable right over transferred assets (for example, the right to direct the recipient on how to use resources) without an enforceable obligation as the result of a transfer expense transaction without binding arrangements. In such cases, the transfer would result in the recognition of an asset which would be derecognised when or as the enforceable right is extinguished.

Section D: Transfer Expenses from Transactions with Binding Arrangements

D.1 Identifying Transfer Rights in a Binding Arrangement

How does an entity determine the individual transfer rights in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional

judgement as it applies paragraphs 21 and AG31–AG34 to determine the individual transfer rights in its binding arrangement.

An entity should first identify all the rights to require the transfer recipient to satisfy its compliance obligation(s) in a manner as specified in the binding arrangement. In the context of a binding arrangement for transfer expenses, rights include the ability to require the transfer recipient to use resources for a good or service internally or to transfer a good, service, or other asset (which could include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

An entity then considers each identified right to determine if a right is itself a distinct transfer right, or whether it should be grouped with other rights to be a single distinct transfer right. Thus, a transfer right is a unit of account that represents a distinct right or group of rights to which recognition criteria and measurement concepts are applied (paragraphs 22–43).

A right in a binding arrangement is distinct if it can be enforced separately from other rights in the arrangement. An entity considers the following factors when assessing whether a right is distinct:

- (a) The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;
- (b) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and
- (c) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

Any distinct right, or distinct group of rights, identified by the entity through this analysis would be an individual transfer right.

Section E: Recognition of Transfer Expenses from Transactions with Binding Arrangements

E.1 Derecognition of a Transfer Right Asset

An entity has determined that it has one transfer right which is extinguished over time. How does the entity determine a measure of progress that best depicts the extinguishment of its transfer right?

In general, a transfer right is extinguished (and the related transfer right asset is expensed) when or as an entity can no longer require the transfer recipient to act in accordance with the binding arrangement. This often occurs when or as the transfer recipient has satisfied its obligations in the arrangement, so the appropriate method of measuring progress depends on the specific nature of the entity's transfer rights and the specific terms of the binding arrangement. In situations where the binding arrangement consists of one transfer right to have the transfer recipient satisfy various interrelated activities, the transfer right may be partially extinguished as individual activities are being performed by the transfer recipient. Common considerations which could inform when a transfer right has been partially extinguished include:

- (a) The transfer recipient has performed activities specified in the binding arrangement;
- (b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and
- (c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, some binding arrangements may specify that the extinguishment of an entity's transfer right depends on the satisfaction of the ultimate transfer recipient's compliance obligations. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from one entity to the next. An entity will need to consider the terms of the binding arrangements and any relevant facts and circumstance to determine when to derecognise its transfer right assets.

In other cases, a transfer right may be extinguished due to the transfer recipient's inability or unwillingness to satisfy its obligations in the binding arrangement. When this occurs, the entity considers if the terms of the binding arrangement, along with the legal framework in the relevant jurisdiction, give the entity the unconditional right to receive cash (e.g., a refund of the transferred cash). Such an unconditional right results in the derecognition of the transfer right asset and the recognition of a financial asset (see paragraph 26). If the binding arrangement and relevant legal framework do not support the recognition of a financial asset, the transfer right asset is not derecognised, and the entity then considers if the asset has been impaired (see paragraph 43). This topic is further illustrated in Illustrative Example 8 (see paragraphs IE42-IE48).

Section F: Measurement of Transfer Expenses from Transactions with Binding Arrangements

F.1 Allocating the Transfer Consideration to Transfer Rights

How should a public benefit entity determine a suitable method for estimating the stand-alone consideration of a transfer right?

Generally, an entity would want to explicitly specify in a binding arrangement the amount of resources it is willing to transfer for each transfer right (i.e., the stand-alone consideration is typically specified for each transfer right). In situations where the stand-alone consideration is not explicitly stated, the Standard requires an entity to determine the best estimate of the amounts that it intends to compensate the transfer recipient for satisfying its obligation when negotiating the binding arrangement.

The most suitable method to estimate the stand-alone consideration will depend on the quality and type of information that is available to the entity. For example, the individuals negotiating a binding arrangement may have contemporaneous records detailing how they estimated the stand-alone consideration for specific transfer rights included in the binding arrangement. Other entities may have detailed internal budget information documenting the resources it is willing to pay for each specific transfer right. In other cases, the individuals negotiating a binding arrangement may be using a standard pricing list from the transfer recipient to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each transfer right.

Section G: Multi-Year Arrangements

G.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognise transfer expenses from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (e.g., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements span a longer term, the application of accounting principles is consistent with the accounting for other transfer expense transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in paragraphs 18–20 for transfer expenses arising without binding arrangements, or paragraphs 21–43 for transfer expenses arising from transactions with binding arrangements. The entity shall consider the recognition of a transfer right asset and/or transfer expense independently from the timing of when resources are physically transferred.

Illustrative Examples

These examples accompany, but are not part of, PBE IPSAS 48.

- IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in PBE IPSAS 48 *Transfer Expenses* to particular transfer expense transactions, based on the given facts. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying PBE IPSAS 48.

Scope

- IE2. Examples 1–2 illustrate the requirements in paragraphs 3–5 of PBE IPSAS 48 on the determination of whether a transaction is within the scope of PBE IPSAS 48.

Example 1: Transfer Where the Other Party Provides Goods and Services

- IE3. A not-for-profit entity (the NFP) enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.⁸ Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A – Vehicle is Provided to the NFP

- IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the NFP.
- IE5. The binding arrangement does not give rise to a transfer expense of the NFP, as the NFP directly receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of PBE IPSAS 48. The NFP applies PBE IPSAS 17 *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs and maintenance.

Case B – Vehicle is Provided to a Community Group

- IE6. In this separate scenario, the binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a community group (a third-party beneficiary) rather than to the NFP.
- IE7. The binding arrangement gives rise to a transfer expense of the NFP, as the NFP transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the third-party beneficiary.) The NFP (the transfer provider) applies paragraphs 21–43 of PBE IPSAS 48 in accounting for the transfer, as it arises from a binding arrangement.

Example 2: Research Grants

- IE8. The central government enters a binding arrangement with a university whereby the central government will provide the university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

Case A—Central Government Controls Research

- IE9. The binding arrangement includes a requirement that the university will transfer the results of the research to the central government, including rights to any intellectual property and/or patents created.
- IE10. The binding arrangement does not give rise to a transfer expense of the central government, as the central government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of PBE IPSAS 48. The central government applies PBE IPSAS 31 *Intangible Assets*, in accounting for the binding arrangement.

⁸ In these examples, monetary amounts are denominated in ‘currency units’ (CU).

Case B—University Controls Research

- IE11. The binding arrangement does not require the university to transfer the results of the research to the central government. Rather, the university retains control of the research, including rights to any intellectual property and/or patents created.
- IE12. The binding arrangement gives rise to a transfer expense of the central government, as the central government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The central government (the transfer provider) applies paragraphs 21–43 of PBE IPSAS 48 in accounting for the transaction, as it arises from a binding arrangement.

Binding Arrangements and Enforceability

- IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10–16 of PBE IPSAS 48.

Example 3: Identifying Whether a Binding Arrangement Exists

- IE14. A local government is required under its constitution to undertake various social programmes; however, it has insufficient resources to undertake these programmes without assistance. The central government decides to transfer CU10 million of surplus funds to the local government to assist with its social programmes. The details of the transfer are documented in a “funding agreement.” However, the agreement only results in an obligation for the central government to transfer funds and does not provide the central government with any rights to compel the local government to act in a specific manner.
- IE15. Since the agreement does not confer both rights and obligations to the central government, it is not a binding arrangement. The central government shall apply the accounting principles in paragraphs 18–20 to account for the transfer.

Example 4: Agreement for Transfer Subject to Completion of the Appropriations Process

- IE16. The central government has a financial year end of 30 June. On 15 September 20X1, the central government (the transfer provider) enters into an arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution. CU10 million is to be transferred in the 20X2 financial year, and the remaining CU5 million to be transferred in the 20X3 financial year. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.
- IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million on 31 March 20X2 and the central government immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in the 20X2 financial year but will be considered in the following year as part of the appropriation process for the 20X3 financial year.
- IE18. In determining the effect of the appropriation on the arrangement, the central government considers substance over form, in accordance with paragraphs 10–16 and AG11–AG25.

Case A – Requirement to Complete the Appropriation Process has Substance

- IE19. The reduction in air pollution is a local government responsibility, and there is no authorising legislation that requires the central government to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.
- IE20. The central government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in the 20X2 financial year and CU5 million in the 20X3 financial year) until the appropriation process is completed. Consequently, in the 20X2 financial year, the central government only recognises an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of

the compliance obligations up to 31 March 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the central government would instead recognise a transfer right asset of CU10 million.

- IE21. On 31 October 20X2, parliament completes the appropriation process for the remaining CU5 million. At this date, the central government applies paragraphs 21–26 of PBE IPSAS 48 to assess the accounting implications for the remaining CU5 million.

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

- IE22. In this scenario, the reduction of air pollution is a priority of both the central and local governments, and there is legislation in place which requires the central government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the central government is required by law to complete the appropriation for the CU15 million transfer.
- IE23. The central government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the central government is required by law to complete the appropriation for the CU15 million transfer. Upon execution of the binding arrangement, the central government applies paragraphs 21–26 of PBE IPSAS 48 in determining when to recognise a transfer right asset or a transfer expense.

Transfer Expenses from Transactions with Binding Arrangements

- IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of PBE IPSAS 48.

Example 5: Determining Whether Goods or Services are Distinct

Case A – Goods or Services are not Distinct

- IE25. A local government enters into a binding arrangement with Entity A, for Entity A to build a new community centre. Under the terms of the binding arrangement, Entity A has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.
- IE26. To determine if the binding arrangement has more than one transfer right, the local government applies paragraphs 21, AG31–AG34 and considers the factors discussed in Implementation Guidance D.1 of PBE IPSAS 48 to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.
- IE27. Without the context of the overall arrangement, the rights to have Entity A perform the individual activities such as project management, design, procurement, and construction, could be viewed as distinct rights that can be enforced separately. However, within the context of the binding arrangement, these rights are all highly interdependent (e.g., the construction of the structure can only be performed after completion of the design, engineering, site clearance foundation, and procurement activities) and highly interrelated (i.e., the individual services together result in the building of a new community centre.)
- IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of PBE IPSAS 48, the local government aggregates these related rights into a single transfer right.

Case B – Goods or Services are Distinct

- IE29. A local government office (Local Government) enters into a binding arrangement with an IT services agency (the Agency) for the Agency to provide the following to a university in the region (the University, the third-party beneficiary) over a two-year period:
- (a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programmes);
 - (b) Website-related services;
 - (c) Unspecified software updates for security purposes; and

- (d) Technical support (online and telephone) to the University's faculty and staff.
- IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.
- IE31. The Local Government assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of PBE IPSAS 48. In making this assessment, the Local Government applies the guidance in paragraphs AG31–AG34 of PBE IPSAS 48.
- IE32. The Local Government observes that:
- (a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;
 - (b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the licence and services can be separately enforced; and
 - (c) The goods or services are neither highly interdependent nor highly interrelated. The Local Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.
- IE33. The Local Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralise the University's purchasing process and potentially negotiate a discount by bundling the licence with services.
- IE34. On the basis of the above assessment, the Local Government identifies four transfer rights in the binding arrangement for the following goods or services:
- (a) The productivity software;
 - (b) Website-related services;
 - (c) Security updates; and
 - (d) Technical support.

Recognition of Transfer Expenses

- IE35. Examples 6–8 illustrate the requirements in paragraphs 22–25 on the overall accounting model for transfer expenses from transactions with binding arrangements:
- (a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;
 - (b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and
 - (c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of PBE IPSAS 48.

Example 6: Recognition of a Transfer Right Asset and its Subsequent Derecognition

- IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a local government office (the Local Government) entered into a binding arrangement with an IT services agency (the Agency) to provide certain goods and services to a university in the

region (the University). In Examples 5 and 10, the Local Government determined that its transfer rights in the binding arrangement and its allocation of the transfer consideration are as follows:

- (a) The productivity software for CU6 million;
- (b) Website-related services for CU2 million;
- (c) Security updates for CU3 million; and
- (d) Technical support for CU1 million.

IE37. The binding arrangement specifies that the transfer of the software occurs and the service period begins upon payment of the entire CU12 million by the Local Government (i.e., the Local Government pays upfront). Upon payment of the CU12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.

IE38. The Local Government recognises the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognised based on the nature of each transfer right:

- (a) Productivity software – The Local Government observes that the Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software licence was extinguished once the software was provided to the University, and CU6 million of the transfer right asset should be expensed at that time;
- (b) Website-related services – The Local Government observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognise CU2 million of the transfer right asset while recognising a transfer expense over time during the two-year period (e.g., amortising CU83,333 into expenses each month over the two-year period);
- (c) Security updates, and technical support services – The Local Government's remaining transfer rights relate to services that are performed on an as-needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognise the CU4 million while recognising a transfer expense over time during the two-year period. (e.g., amortising CU166,667 into expenses each month over the two-year period).

Example 7: Recognition of a Transfer Obligation Liability

IE39. A not-for-profit entity (the NFP) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide health and safety booklets to public primary schools in the city (Schools, the third-party beneficiaries) as part of the Schools' health and safety courses for Years 1–3. The binding arrangement specifies that the NFP will pay the Publisher CU15 per booklet, and the number of booklets to be provided will be based on enrolment numbers for Years 1–3, which will be finalised a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the NFP will provide the enrolment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the booklets to the Schools at least two weeks before the start of the school year, and the NFP will pay the remaining consideration for the booklets provided within 30 days after the Schools have received the shipments.

IE41. Upon finalisation of student enrolment, the enrolment numbers were provided to the Publisher, and 19,800 booklets were shipped to the Schools. To account for this binding arrangement, the NFP applies paragraphs 22–25 of PBE IPSAS 48:

- (a) Upon entering the binding arrangement, no accounting occurs as neither party has started to satisfy its obligations in the arrangement.
- (b) A month before the school year begins, the NFP provides the enrolment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the NFP recognises a transfer right asset of CU29,700 (CU15 × 19,800 books × 10%):

Transfer right asset	CU29,700	
Cash		CU29,700
(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the booklets to the Schools, and the NFP's right to have the booklets delivered has been extinguished. The NFP derecognises the transfer right asset of CU29,700 and records the amount as a transfer expense. In addition, the NFP also recognises a transfer obligation liability and a transfer expense for the unpaid consideration of CU267,300 (CU15 × 19,800 books – CU29,700 deposit) based on the terms of the binding arrangement: ⁹		
Transfer expense	CU267,300	
Transfer right asset		CU29,700
Transfer obligation liability		CU237,600

Example 8: Derecognition of a Transfer Right Asset Due to Non-Performance

- IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a company that operates a number of private clinics in a region (the Company). Under the terms of the binding arrangement, the Ministry will provide an upfront payment of CU1 million to the Company for the Company to operate a vaccination programme and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Company is required to provide monthly reports on the number of doses administered and patient information to the Ministry.
- IE43. The binding arrangement specifies that if the Company stops administering the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Company is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Company has spent the funds on acquiring the vaccinations. (e.g., if the Company purchases 10,000 doses immediately upon receipt of the CU1 million, then only administers 5,000 doses and stops the vaccination programme, it will be required to return CU500,000 to the Ministry even though the entire CU1 million has been spent.) However, the binding arrangement also specifies that the Company is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as war, terrorist attacks, or natural disasters.

Case A – The Company Decides to Stop the Vaccination Programme

- IE44. Upon paying the CU1 million, the Ministry recognises a transfer right asset for the right to have the Company's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Company purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Company observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Company makes a business decision and informs the Ministry that it will stop administering the vaccines.
- IE45. For the vaccines that have been administered, the Ministry derecognises CU50,000 of the transfer right asset and recognises a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies paragraph 26 of PBE IPSAS 48 and:
- Derecognise the transfer right asset of CU950,000; and
 - Recognise a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Company has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of PBE IPSAS 41 *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in PBE IPSAS 41 and is no longer within the scope of PBE IPSAS 48.

⁹ It should be noted that PBE IPSAS 48 does not prohibit a public benefit entity from using alternative descriptions in its financial statements for the terms 'transfer right asset', 'transfer obligation liability', or 'transfer expense'.

Case B – A Force Majeure Event Prevents the Administration of 10,000 Doses

- IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognises the amount as a transfer right asset. In this scenario, the Company also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Company informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination programme and administer the remaining 9,000 within 12 months.
- IE47. Like Case A, the Ministry derecognises CU50,000 of the transfer right asset and recognises a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed in the earthquake. In addition, the Company has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.
- IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of PBE IPSAS 48 and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Company's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with PBE IPSAS 21 and reduces its transfer right asset to CU900,000.

Modifications to a Binding Arrangement

- IE49. Example 9 illustrates the requirements in paragraphs 27–29 of PBE IPSAS 48 on binding arrangement modifications. In addition, Case C of this example illustrates the requirements to estimate variable consideration in paragraphs 35–37 of PBE IPSAS 48, as well as the requirements on changes in transfer consideration in paragraphs 40–42. Cases A, B, and C all build on the fact pattern outlined in paragraphs IE50–IE51 but are each independent from each other.

Example 9: Modifications to a Construction Arrangement

- IE50. The Ministry of Housing and Urban Development (Housing, the transfer provider) enters into a binding arrangement with Entity A (the transfer recipient) for Entity A to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million. In accordance with paragraph 25 of PBE IPSAS 48 and based on the terms of the binding arrangement, Housing accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.
- IE51. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, Housing assesses that Entity A has completed 60% of the building's construction based on the surveyor's report. Consequently, the expenses recognised by Housing for the first year are CU600,000 (transfer consideration of CU1 million x 60%).

Case A – Modification Resulting in a Cumulative Catch-Up Adjustment to Expenses

- IE52. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the transfer consideration increases by CU150,000 and the total transfer consideration after the modification is CU1,150,000. In assessing the modification to the binding arrangement, Housing evaluates paragraph (a) of PBE IPSAS 48 and concludes that the upcoming construction based on the revised floor plan remains a single transfer right rather than any additional transfer rights, because the modification does not result in the acceptance of additional distinct compliance obligations by Entity A or an increase in Entity A's existing compliance obligations.
- IE53. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement in accordance with paragraph 29 of PBE IPSAS 48. Based on an updated quantity surveyor's report, Housing updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result, Housing recognises additional expenses of CU9,500 [(53% complete × CU1,150,000 modified transaction consideration) –

CU600,000 expenses recognised to date] at the date of the modification as a cumulative catch-up adjustment in the statement of comprehensive revenue and expense.

Case B – Modification Resulting in a New Binding Arrangement

- IE54. Continuing with the facts presented in paragraphs IE50–IE51, in the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of CU100,000 for the construction of a parking lot to be located next to the residential building.
- IE55. Housing determines that this modification results in a separate binding arrangement because:
- (a) The construction of the parking lot is a new transfer right, as Housing can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right as noted in paragraph AG32 of PBE IPSAS 48; and
 - (b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Entity A for the construction of the parking lot.
- IE56. As a result, Housing continues to account for the transfer relating to the construction of the residential building in the manner described in paragraphs IE50–IE51. The CU100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

Case C – Change in Transfer Consideration Due to the Resolution of Uncertain Events

- IE57. Modifying the facts presented in paragraphs IE50–IE51, at the inception of the binding arrangement, Housing also agreed to pay a bonus of CU200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.
- IE58. Completion of the building is highly susceptible to factors outside Entity A's influence, including weather conditions and regulatory approvals. In addition, Entity A has limited experience with similar types of binding arrangements. Based on these factors, Housing excluded the CU200,000 bonus from the transfer consideration at the inception of the binding arrangement.
- IE59. At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely. As a result, Housing concludes that payment of the bonus is now probable and adjusts the transfer consideration to CU1,200,000.
- IE60. The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. Housing accounts for the probable payment of the bonus by applying paragraph 41 of PBE IPSAS 48 and allocates the CU200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, Housing expenses an additional CU120,000 for the probable bonus payment as a cumulative catch-up adjustment ((CU1.2 million x 60%) – CU600,000 expense recognised to date).

Measurement

- IE61. Example 10 expands upon the fact pattern from Case B of Example 5 to illustrate the allocation of transfer consideration to individual transfer rights.

Example 10: Allocation of Transfer Consideration

- IE62. Continuing the fact pattern from Case B of Example 5, the local government office (Local Government) has concluded that it has four distinct transfer rights in its binding arrangement with the IT services agency (the Agency). As noted in paragraph IE34, these transfer rights relate to providing the University with productivity software, website-related services, security updates, and technical support services over a two-year period.
- IE63. When the Local Government began negotiations with the Agency, it observed that the Agency's published prices would have been as follows, had the software and services been purchased separately for the two-year period: CU6 million for the software, CU4 million for the website-related services, CU3 million for the security updates, and CU2 million for technical support. During negotiations, the

Local Government and the Agency used these published prices as a starting point then agreed to reduce the total consideration for all four deliverables from CU15 million to CU12 million.

Case A – Binding Arrangement Specifies Each Transfer Right’s Stand-Alone Consideration

- IE64. In this scenario, the binding arrangement specifies that the CU3 million reduction in transfer consideration resulted from a CU2 million discount for website-related services and a CU1 million discount for technical support.
- IE65. Applying paragraph AG50, the Local Government uses the amount of stand-alone consideration and the negotiated discount specified in the binding arrangement for each transfer right and allocates the transfer consideration as follows:
- (a) Productivity software: CU6 million;
 - (b) Website-related services: CU2 million;
 - (c) Security updates: CU3 million; and
 - (d) Technical support: CU1 million.

Case B – Binding Arrangement Only Specifies the Total Transfer Consideration

- IE66. In this scenario, the Local Government and the Agency only agreed to the overall CU3 million discount for the entire bundle of the software and the various services, and the binding arrangement does not specify how the CU3 million is to be allocated.
- IE67. Applying paragraph AG51, the Local Government estimates the consideration allocated to each transfer right based on the amounts that were intended to compensate the Agency for the software and the services. As the Agency’s published prices were used as the starting point for negotiations, the Local Government noted that these prices are appropriate proxies for the stand-alone consideration of the software and services. Therefore, one reasonable allocation approach is to proportionately allocate the CU12 million based on each deliverable’s published prices.
- IE68. Using this approach, the Local Government allocates the transfer consideration as follows:
- (a) Productivity software: CU4.8 million ($\text{CU6 million} \div \text{CU15 million} \times \text{CU12 million}$);
 - (b) Website-related services: CU3.2 million ($\text{CU4 million} \div \text{CU15 million} \times \text{CU12 million}$);
 - (c) Security updates: CU2.4 million ($\text{CU3 million} \div \text{CU15 million} \times \text{CU12 million}$); and
 - (d) Technical support: CU1.6 million ($\text{CU2 million} \div \text{CU15 million} \times \text{CU12 million}$).

Application of Principles to Specific Transactions

- IE69. Example 11 illustrates the application of paragraphs AG53–AG55 of PBE IPSAS 48 to capital transfers.

Example 11: Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

- IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:
- (a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;
 - (b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;
 - (c) To facilitate Entity P’s enforcement of the binding arrangement, the terms require Entity R to:
 - (i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities;

- (ii) Provide detailed progress reports at each significant stage of construction; and
 - (d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.
- IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.
- IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognises a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.
- IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognised and expensed throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

- IE74. In this example, the binding arrangement states that:
- (a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;
 - (b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;
 - (c) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and
 - (d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.
- IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from PBE IPSAS 48, Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.
- IE76. For the transfer right relating to the construction of the building, as in Case A, Entity P recognises a transfer right asset of CU22 million upon the transfer of funds. Entity P then derecognises the CU22 million (and recognises the amounts as transfer expenses) over the construction period, based on the construction progress as determined by information reported by Entity R.
- IE77. For the transfer right relating to the operation of the building as a library, Entity P has determined that this transfer right is extinguished as the building is being operated by Entity R as a library during the 10-year period. Therefore, Entity P recognises the entire CU10 million as a transfer right asset upon payment. After construction has been completed, as Entity R operates the building as a public library, Entity P derecognises CU1 million of the transfer right asset per year over the 10-year period and recognises the amount as a transfer expense.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

- IE78. In this scenario, the binding arrangement includes all the terms from Case B, with the addition of the following:
- (a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty to Entity P;
 - (b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.
- IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will recognise the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.
- IE80. The additional CU5 million penalty is not recognised by Entity P because its receipt is contingent on Entity R ceasing to operate the building as a public library. Such a contingent asset is not recognised in accordance with PBE IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

- IE81. The following scenario is independent from Cases A–C and illustrates the accounting for a transfer without a capital transfer component.
- IE82. In this scenario:
- (a) Entity R already owns the building;
 - (b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidise the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalisation of the binding arrangement;
 - (c) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library; and
 - (d) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.
- IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a public library over a 10-year period. Upon initial payment, Entity P recognises the CU10 million as a transfer right asset.
- IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognises the transfer right asset evenly over the 10-year period and recognises a transfer expense of CU1 million per year.

Comparison with IPSAS 48

PBE IPSAS 48 *Transfer Expenses* is drawn from IPSAS 48 *Transfer Expenses*.

The significant differences between PBE IPSAS 48 and IPSAS 48 are:

- (a) Unlike IPSAS 48, PBE IPSAS 48 applies to both public sector PBEs and not-for-profit PBEs. This has resulted in minor wording changes and the modification of Examples 1 and 7 for the not-for-profit context.
- (b) IPSAS 48 excludes social benefits, as defined in IPSAS 42 *Social Benefits*, from its scope. In contrast, PBE IPSAS 48 does not contain such a scope exclusion.
- (c) PBE IPSAS 48 includes consequential amendments to PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. These amendments:
 - (i) remove the New Zealand scope exclusion relating to certain obligations of the Crown expressed in legislation that have characteristics similar to an executory contract; and
 - (ii) add authoritative guidance on the recognition of liabilities arising from local and central government existing public policies, budget policies, election promises or statements of intent, drawing on the principles of PBE IPSAS 19.
- (d) PBE IPSAS 48 includes RDR concessions for public benefit entities in Tier 2.
- (e) In accordance with Implementation Guidance Section B.3 in IPSAS 48, the term ‘appropriation’ is defined in IPSAS 24 *Presentation of Budget Information in Financial Statements*, as an authorisation granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or a similar authority. However, since IPSAS 24 has not been incorporated into PBE Standards, the reference to the IPSAS 24 definition has been removed. PBE IPSAS 48 Implementation Guidance Section B.3 has been amended to refer to an appropriation as an authorisation granted by a legislative body (i.e., the enabling authority) to incur expenses or capital expenditure for purposes specified by the legislature or similar authority. This update in PBE IPSAS 48 clarifies that the authorisation pertains to incurring expenses or capital expenditure, rather than merely the allocation of funds as described in IPSAS 24. This update aligns with the New Zealand Public Finance Act 1989.
- (f) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.