TE TAI ŌHANGA
THE TREASURY

1 December 2025

New Zealand Accounting Standards Board
Level 6/154 Featherston St
Central Wellington
6011

Attention: accounting@xrb.govt.nz

Kia ora katou

Submission on ED PBE IPSAS 47 Revenue and ED PBE IPSAS 48 Transfer Expenses

Thank you for the opportunity to comment on these proposed standards. Treasury views them as a package, noting that one party's transfer expense is likely to be another party's revenue, the use of the same novel concepts, and the similarity of the questions (and answers) that have been asked of respondents. We have therefore provided a single response in a package covering both standards.

Our overall view on this package of standards is that the principles appear appropriate. Implementation will be challenging however, and there could be greater clarity in the standards and more relevant illustrative examples.

Treasury has very much appreciated the level of engagement and dialogue from the NZ ASB through the process of development of these complex EDs and the subsequent consultation period. We hope and trust that will continue as standard is finalised. It can be expected that as individual transactions are considered in greater depth, relatively easy additional guidance may help the implementation of the standards, and the consistency of their implementation. We look forward to continuing our engagement with you.

Yours sincerely

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Benefit vs cost considerations

1(a) What are the anticipated benefits of adopting the proposed PBE IPSAS 47/ PBE IPSAS 48 for your organisation? Please provide specific examples.

1(b) What are the anticipated initial and ongoing costs your organisation may incur in adopting the proposed PBE IPSAS 47/ PBE IPSAS 48? Please provide specific examples.

1(c) Considering the benefits and costs identified above, do you expect the benefits of adopting PBE IPSAS 47/PBE IPSAS 48 to outweigh the costs for your organisation? Please explain your reasoning.

The Treasury notes that both revenue and expense recognition (particularly in the absence of contracts) have both been problematic in the past. The Treasury has had cause to write Guidance on Recognising Liabilities and Expenses | The Treasury New Zealand to improve the consistency of accounting for expenses, while debates about the recognition and measurement of taxes, levies and licences continue to be held.

The issues are not straightforward as the rights and obligations associated with public sector activity tend to crystallise over time and may be contingent on circumstances. Whereas a stable environment may suggest responsibilities and duties that can be relied on, in an uncertain environment or a crisis those same prior expectations may prove unreliable. Reporting rights and obligations and the consequent revenues and expenses can therefore be challenging.

We consider there are advantages in using IFRS 15 as a base, as PBE IPSAS 47 does, to maximise alignment with private sector reporting of revenue. The use of IPSAS 47 also provides international alignment.

The Treasury considers also that there are advantages in moving away from the judgements currently required between exchange versus non-exchange, and restrictions versus conditions that were not reflective of real-world concerns. The proposed PBE IPSAS 47/ PBE IPSAS 48 approach of requiring a judgement whether a binding arrangement exists and aligning expense and revenue recognition with either the terms of that binding arrangement, or alternatively when a right to an asset, or an obligation requiring a provision exists and should be recognised in the balance sheet, seems logical and fair. That does not mean it will be easy.

Examples of judgements that are required for revenue recognition include:

- Crown funding for appropriated costs
- Revenue from the sale of regulatory instruments (e.g. radio spectrum, mining licences, tradeable emission credits, passports)
- Revenue from levies priced on a cost-recovery basis
- Revenue from permits and licences

Examples of judgements that are required for expense recognition include:

- Pre-commitments to provide compensation
- Grantor funding for appropriated costs
- Obligations under international treaties
- Obligations under manifesto commitments

We concur also with the NZ ASB's three identified costs of implementing the standards; that time and resources will be required to be invested on adoption, judgements are necessary resulting in application costs, and there will be perceptions that the adoption effort may not be seen in actual change.

Our preliminary view is that these costs could be reduced with educational material and with more relevant illustrative examples of the items identified above to be included in the IE section of the standard.

Key principles in revenue/transfer expense accounting

2. Do the binding arrangement, enforceability and transfer right principles outlined in the EDs provide sufficient clarity for practical application? What challenges, if any, do you anticipate in applying these principles in practice?

We have provided in Appendix 1, as a preliminary example, the fact pattern and the judgements necessary in applying PBE IPSAS 47/PBE IPSAS 48 to the revenue that departments, Crown entities and Offices of Parliament receive from the Crown to fund expenses that have been appropriated by Parliament. The example provides a clear illustration of the challenges that can be anticipated in the practical application of these principles.

Treasury expects that as its preliminary conclusions reached in the appendix are debated with interested parties such as Office of the Auditor General, and entities receiving Crown funding in compensation for appropriated expenses on outputs, and are perhaps modified as a result, we will be in a better position to propose improvements so that the proposed standards provide sufficient clarity for practical application.

Currently, for example we are unsure of the benefit of having three different terms: transaction consideration, stand-alone consideration and transfer consideration, when the first two seem to mean the same thing, and the third is essentially a plural of the first two. We are however not yet in a position to make specific suggestions for change.

Another example we are still assessing is the implications of the proposed guidance to use transaction consideration for the initial recognition of tax revenue (i.e: the amount of resources to which an entity expects to be entitled per para 30) while the asset arising is "measured at the best estimate of the inflow of resources to the entity" (para 45). These can be different. We would also note the assumption in F.1 of the implementation guidance that sovereign receivables and contractual receivables are consistent in substance and risk exposure is not always valid, given the powers of the tax collecting authority to reassess the debt outstanding and add and revoke penalties.

Treasury notes that NZ ASB's projected timeline is to issue PBE IPSAS 47 and 48 in Q3 2026. We suggest an ongoing dialogue through 2026 will be necessary as we continue to develop and test our judgements using the EDs with common and or challenging transaction types.

Recognition of revenue/transfer expense transactions

3. Do you agree with the proposed approach to revenue/transfer expense recognition for transactions with binding arrangements? Are there any specific challenges you foresee in applying this approach?

4. Regarding the proposed approach to revenue/transfer expense recognition for transactions without binding arrangements:
   a) Do you agree with the proposed approach? Are there any specific challenges you foresee in applying this approach?
   b) Do you anticipate a change to the accounting for social benefit transactions as a result of applying the proposed approach? If so, how would the accounting change?
   c) Do you consider the proposed guidance, added to PBE IPSAS 19, to be sufficient to assist PBEs in determining whether they have a legal or constructive obligation at the reporting date?

We are in general agreement with the proposed approach to revenue/transfer expense recognition for transactions with binding arrangements.

We note that the accounting guidance for binding arrangements is based on, and equivalent to the accounting guidance in IFRS 15 *Revenue from Contracts with Customers*. Implicit in this approach is the existence of a contract, and the application of contract law in determining rights and obligations on which to base the accounting.

We suggest that the extension of this contract-based approach to binding arrangements may lead to challenges where there isn't an equivalent "binding agreement law" and where the assumption of willing buyer-willing seller may not be valid.

We are in general agreement that it is appropriate for the scope of ED PBE IPSAS 48 to include 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). We also agree that these 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. We do not expect the accounting for social benefits to change.

We note that there was some push back against the underlying assumption for this view in the 1990s. For example, the 1997 Budget speech mooted a code of social responsibility - a form of contract between a welfare recipient and the State, whereby taxpayer support for those able to work comes with a responsibility to actively be seeking work, taxpayer support to enable children to be looked after comes with an expectation they are looked after properly and, for example, attend school and where taxpayer support is provided because it is difficult to organise finances, then budgetary advice should be sought and followed. More recently, recipients of Jobseeker Support benefits must fulfil requirements, including actively seeking work and reporting changes in circumstances.

We suggest there be some consideration therefore of the appropriate accounting when the assumption doesn't hold that central or local governments do have an enforceable obligation on individuals and communities to in return for the social benefit.

We consider the proposed guidance, added to PBE IPSAS 19, to be helpful but not sufficient to assist PBEs in determining whether they have a legal or constructive obligation at the reporting date. It is our expectation that we will need to update rather than withdraw our [Guidance on Recognising Liabilities and Expenses | The Treasury New Zealand] on release of hie standard

Disclosure and RDR concessions (Section G)

5. Do you consider the disclosure requirements to be appropriate and proportionate to the needs of users of PBE financial statements?

   5a. What challenges do you anticipate in implementing PBE IPSAS 47, including any specific transactions or scenarios where additional clarification may be needed?

   5b. What support or guidance would be most helpful to assist with these challenges?

6. Do you agree with the proposed reduced disclosure regime (RDR) concessions for Tier 2 PBEs?

Treasury has noted ED PBE IPSAS 48 requires disclosures of the following for material transfers that are not a binding arrangement:

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.

In the absence of a basis of conclusion from the IPSASB on the rationale for these disclosures, we must assess the requirement in terms of the disclosure objective 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.

For the year ended 30 June 2025 the Financial Statements of Government reported 17 such material transfers as below.

2025 Forecast at			Actual	
Budget 2024 $m	**Budget 2025 $m**		**30 June 2025 $m**	**30 June 2024 $m**
23,194	23,180	New Zealand superannuation	23,191	21,574
4,435	4,644	Jobseeker support and emergency benefit	4,641	4,062
2,661	2,669	Supported living payment	2,668	2,530
2,316	2,435	Family tax credit	2,434	2,297
2,245	2,257	Sole parent support	2,255	2,097
2,495	2,304	Accommodation assistance	2,232	2,411
1,104	1,060	KiwiSaver subsidies	1,020	1,014
1,103	1,116	International Development Cooperation	953	1,202
751	758	Hardship assistance	755	667
685	720	Paid parental leave	709	647
579	578	Student allowances	574	526
555	560	Winter energy payment	562	537
594	564	Other working for families tax credits	561	448
496	492	Disability assistance	492	464
405	402	Orphan's/unsupported child's benefit	402	384
339	348	Best start tax credit	346	336
133	190	Income related rent subsidy	192	189
626	587	Other social assistance benefits	692	552
44,716	**44,864**	**Total transfer payments and subsidies**	**44,679**	**41,937**

While it is possible to report on the purpose of these items, the payments terms, and the fact that it is cash that is being transferred, we question the benefit of these disclosures. For example, users wanting that information on New Zealand Superannuation are much more likely to access New Zealand Superannuation - Work and Income website designed to “Find out all you need to know about NZ Super”.

We do not think that the addition of four or five pages of audited disclosures that would be required improves the users understanding of the nature, amount, timing, and uncertainty. It would substantially add to the cost and clutter of the financial statements.

The Treasury recognises that it may be possible to disregard this requirement through consideration of paragraphs 45-47 of PBE IPSAS 1 but considers that is a second-best option to removing these disclosure requirements.

The Treasury has no comment on the reduced disclosure regime (RDR) concessions for Tier 2 PBEs.

Implementation and specific issues (Section H)

7(a) What challenges do you anticipate in implementing PBE IPSAS 47/ PBE IPSAS 48, including any specific transactions or scenarios where additional clarification may be needed?

7(b) What support or guidance would be most helpful to assist with these challenges?

The exposure drafts, as we understand them, essentially demand that the rights and obligations associated with revenue and transfers be identified, measured and used to recognise when revenue arises and when expenses are incurred. We would anticipate that under current arrangements, many of these rights and obligations are implicit rather than explicit, and it is quite possible that the provider and recipient may have different views of the rights and obligations arising.

In such cases, we anticipate therefore that successfully implementing PBE IPSAS 47/ PBE IPSAS 48 will require specification and/or clarification of the respective rights and obligations. This work is valuable and should be supported by NZ ASB as it is by the Treasury. There are however likely to be challenges from those who may regard this as an additional compliance burden, driven by technical requirements no added value to entities' activities.

Mandatory date and other comments (Section I)

8. Do you agree with the proposed mandatory date of 1 January 2029?

9. Do you have any other comments on the EDs?

Treasury is comfortable with the proposed mandatory date of 1 January 2029 and has no other comments on the EDs.

Appendix 1

Application of PBE IPSAS 47 to Crown funding of entities' outputs in accordance with appropriations

Description of the Transaction / Fact Pattern

The total of Output Expense Appropriations in Budget 2026 is $48,683 million, with non-departmental appropriations comprising $42,201 million or 87%. Most public sector entities receive Crown revenue to fund output expense appropriations and so it is important that the accounting is correct and consistent.

The Guide to the Public Finance Act explains that output expense appropriations authorise expenses to be incurred by departments or other entities in supplying outputs to parties external to the entity. The expenses authorised include both direct expenses and indirect expenses allocated to those outputs.

The underlying principle was to enable a performance-based accountability framework to operate. Output expense appropriations encourage the Government and Parliament to focus on the goods and services or outputs to be delivered by an entity in respect of the appropriations – i.e. to consider performance from the citizen-as-purchaser perspective. They permit attention to be directed to the value obtained from government expenditure as much as how that expenditure was made. They also provide departments with autonomy in determining the appropriate input mix, and where necessary, to alter that input mix during the period.

The Guide to the Public Finance Act makes it clear that appropriations are "a constraining authority only – there is no obligation on the Crown to incur any expense as a result of being granted an appropriation" This position is proposed to be reinforced in the Public Finance Act itself with the current amendment Bill containing a clause for a new section 4(1A) "An appropriation, or other authority, by or under an Act does not require the Crown or an Office of Parliament to incur the expense or capital expenditure that it authorises."

The Guide to the Public Finance Act also notes that "the amount of an appropriation is not necessarily the same as the cash disbursed to a department, nor is it necessarily the same as the revenue the department may earn. For example:

- Ministers may decide not to incur expenses or capital expenditure for which appropriations exist. In such cases revenue and funding may be withheld.
- An appropriation may be for an amount which includes a non-cash expense such as depreciation or the cost of goods and services purchased by a department but not yet paid for."

Also, some appropriated expenses are not funded by Revenue Crown, but from Revenue Departments and Revenue Other. The current practice is that cash disbursed to a department, or Office of Parliament from the Crown will be made in accordance with the cash payments schedules module in CFISnet that reconcile to the respective expenditure baselines[1]. At any point in time however there can be a:

- Debtor Crown: representing the amount owing by the Crown for the services a department has provided to the Crown, that have been recognised in their Operating Statement and in appropriation funding, but where the cash hasn't been drawn down to pay for them.

- Creditor Crown: representing the amount owing by the Department to the Crown for services not provided to the Crown. This currently may occur when the department has drawn down more cash than the agreed Revenue Crown funding for the current year. A Creditor Crown balance at the end of the year reduces the cash draw down in the following year (as the cash is already in the Bank Account).

With respect to Crown entities and other entities receiving non-departmental output appropriations, the common practice is for the administering department and the recipient entity to negotiate a disbursement profile – typically via quarterly payments of the appropriated amount, although other options are available.

Section C of Cabinet Office Circular CO (18) 2 *Proposals with Financial Implications and Financial Authorities*, describes the ways in which departments have authority to use departmental and non-departmental appropriations and sets out some restrictions on that authority. The general position is that all appropriations are made to the Crown or to an Office of Parliament. Departments (through the chief executive or his or her delegate) incur expenses and capital expenditure as instruments of the Crown.

Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under appropriations on behalf of the Crown, in accordance with the terms, and subject to the restrictions set out in the circular. That authority is subject to any agreement to supply outputs or to achieve certain outcomes negotiated with the appropriation Minister or third-party client; or with another department, under which that other department may use the appropriation.

Treasury Instruction 6.6.8 sets out the policy for disbursement of cash of departments. It requires that:

> Departments, as part of their budgeting process, must estimate after each fiscal update the cash flows of authorised department’s operations and any Crown activity managed by the department that Ministers have agreed will be sourced from the Crown. This figure is then used, in conjunction with the liquidity needs of the department, to estimate the total cash requirement for the year. This cash requirement is broken down into disbursements to be made at regular intervals by the Crown to ensure that all department and subsidiary Crown bank

[1] An example of such a reconciliation is shown at the end of this paper.

accounts are sufficiently funded to enable all incurred and authorised (statutory and financial) expenses and capital expenditure are settled. Cash is disbursed to departmental and Crown bank accounts in New Zealand dollars.

Departments must enter their expected cash payment schedule into the cash module in CFISnet prior to the commencement of each financial year and update it during the year as required by the Treasury after baseline update. Any subsequent changes to the cash payment schedules (i.e., a new cash payment request by the department and approved by the Vote Analyst) is required at least two full working days prior to the payment date.

Departments are required to demonstrate that cash requests do not exceed authorised (statutory and financial) departmental expenses and capital injections Departments can do this by completing the cash reconciliation within the CFISnet cash module.

Treasury checks the department is entitled to the amount of cash requested, and, if satisfied, will approve the schedule. Treasury's Debt Management Office then disburses the Departments' cash on the agreed dates.

Treasury Instructions (4.4.3) also make provision for the process for return of operating surplus. This ensures that the requirement in section 22(1) of the Public Finance Act that "Except as agreed between the Minister and the responsible Minister for a department, the department must not retain any operating surplus that results from its activities" is met.

Applying ED PBE IPSAS 47 and ED IPSAS 48

Applying ED PBE IPSAS 47 and ED IPSAS 48 to Revenue Crown require a number of judgements which this section provides an initial work through. All references are to paragraphs in the EDs.

Who is the resource provider?

Revenue requires a third party to provide resources to the reporting entity. The standard defines this party as a "resource provider" (47.2). The resource provider is a purchaser or customer when providing consideration for goods or services it receives that are an output of an entity's activities under a binding arrangement for its own consumption, but the term also includes providers who do not directly receive any goods, services, or other assets in return, or where the resources are used to provide goods and services to third-party beneficiaries (47.AG27).

It is proposed that the resource provider of Crown funding of entities' outputs in accordance with appropriations is the Crown, defined in this case as Ministers of the Crown. While department chief executives and delegated staff are instruments of the Crown they need to be excluded from the definition of resource providers as they are not external to the reporting entity, given the reporting boundary of government departments. Parliament is not the resource provider, as it is not providing resources to the entity; that is not the purpose of the appropriation system, which is to constrain the use of resources by the Crown and Offices of Parliament. The resources that are being provided to departments are sourced from the Executive Branch of the government rather than the Legislative Branch.

In terms of ED IPSAS 48 the Crown therefore is the transfer provider, i.e. an entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return (48.6).

The Crown as an entity does not produce financial statements. However, Treasury Instruction 6.2.1.2 requires audited non-departmental schedules to be prepared for assets, liabilities, revenue, expenses, contingencies and commitments for non-departmental activities administered by departments. Measurement and recognition rules consistent with generally accepted accounting practice are required to be applied. Consequently, ED IPSAS 48 will need to be applied in the preparation of these non-departmental schedules for the non-departmental or Crown activity administered by departments.

Have recipients of Crown funding of their outputs in accordance with appropriations entered into a binding arrangement?

ED PBE IPSAS 47 requires that, at inception, an entity should first consider whether it has entered into a revenue or expense transaction with or without a binding arrangement (47.10). For an arrangement to be binding, it must be enforceable through legal or equivalent means (47.11, 48.10). The substance rather than the legal form of the arrangement must be considered (47.12, 48.11). The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations. A binding arrangement includes both rights and obligations that are enforceable for two or more of the parties in the arrangement. Each party's enforceable rights and obligations within the binding arrangement are interdependent and inseparable (47.13, 48.12). Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's customary practices (47.14, 48.13).

PBE IPSAS 47 requires the following criteria to be met for the binding arrangement accounting model to be applied:

a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;
b) The entity can identify each party's rights under the binding arrangement;
c) The entity can identify the payment terms for the satisfaction of each identified compliance obligation;

d) The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement); and

e) It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement (47.56, no equivalent in 48)

It is proposed that all of the above criteria are met, and therefore a binding arrangement is in place for entities receiving Crown funding of their outputs in accordance with appropriations.

a) The department or office of parliament has prepared cash payments schedules on CFISnet that reconcile to the respective expenditure baselines, and therefore to the approved estimates and any imprest supply authorities or other authorities. The Treasury checks that these schedules are consistent with appropriations, reflect the timing needs of the department for cash and approves them, prior to payment. The Crown and the department or office of parliament have therefore both approved the binding arrangement and are committed to perform their respective obligations. The department or office of parliament is committed to incur expenses up to an agreed limit on distinct services and Ministers are committed to reimburse them for the expenses they occur. Similar arrangements exist between the appropriation administrators of non-departmental output expenses and therefore impact on the revenue reported by the recipient entities.

b) Each party's rights under the binding arrangement can be identified:
   - The Crown's right to ensure output expenses are incurred in accordance with a distinct statutory authority (a compliance obligation on the entity)
   - The department's right to funding for expenses incurred in accordance with statutory authority (a consideration obligation on the Crown)

c) The payment terms for the satisfaction of the compliance obligation are contained in the cash payment schedule, or the agreement between the appropriation administrators of non-departmental output expenses and the recipient entities.

d) The binding arrangement has economic substance. Using the criteria in 47.AG32, the configuration (risk, timing, and amount) of the cash disbursements to departments and Crown entities differs from the configuration of the cash flows of the compliance obligation. It would not be appropriate to net the funding of the costs of departments and Crown entities with the expenses they incur.

e) It is probable that departments will collect the consideration from the Crown to which they will be entitled for satisfying compliance obligations in accordance with the scope of the output expense appropriations.

The above judgement is dependent on the view that the arrangements for funding departments and Crown entities establish a compliance obligation as defined by ED PBE IPSAS 47. The ED defines a compliance obligation as an entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary (47.4).

The ED notes that identifying compliance obligations may require significant judgement. A necessary condition for the existence of a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. An entity considers the following factors in identifying whether a promise is sufficiently specific:

- The nature or type of the promise to use resources;
- The cost or value of the distinct goods or services from the promise to use resources;
- The quantity of the distinct goods or services from the promise to use resources; and
- The period over which the use of resources occurs (47.AG45).

It is proposed that the appropriation scope is designed to ensure that the outputs to be provided are distinct. In support of this, note the Guide to the Public Finance Act states that the scope of an output expense appropriation should have an external focus, cover goods or services that are similar in nature, not cover goods or services covered by other output expense scopes. be comprehensive, be verifiable, be controllable by the agency, and be informative. The period is also defined in the appropriation.

The ED notes that the existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a compliance obligation as defined in this Standard. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator is often an internally imposed measure of performance and not a compliance obligation (47.AG46). The preliminary view is that the appropriation and funding process do not create a performance obligation. The recipient entity is not promising value but rather cost compliance.

The ED notes that a resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms. The compliance obligations may be imposed by requirements in binding arrangements establishing the basis of transfers, or may arise from the normal operating environment, such as the recognition of advance receipts. (47.AG 48). The appropriation reporting process, and the process for dealing with unappropriated items including the operation of the Controller Protocol, and for departments, the Public Finance Act stipulation that departments must not retain any operating surplus that results from their activities provide the ability for Ministers to enforce compliance with the scope appropriations, and therefore this requirement is met.

While the recipient entity is promising that the resources will only be used in accordance with appropriations, it may be argued that the department is not making a promise to use all the resources that are agreed to be paid in the cash payments schedule. Indeed, most frequently, entities do not make full use of the resources as they seek to ensure that total output expenses fall within the appropriation. However, the ED envisions that modifications to binding arrangements (e.g. a variation, an amendment, or a change order) may be approved by the parties to the binding arrangement in writing, by oral agreement or implied by an entity's customary practices (47.63). Many contracts have a maximum limit, rather than a specified price and his does not invalidate the contract, or the application of accounting rules for contracts.

The Treasury notes however that others may come to a different conclusion than is argued above. If the appropriations scope is wide and does not limit the mandate of the recipient entity and is judged not to be sufficiently specific to be considered a compliance obligation, then the conclusion would be that there is not a binding arrangement, and the recipient entity should recognise revenue when it obtains control of the asset. This illustrates the challenge that can be anticipated in the practical application of these principles.

What is the transaction consideration/stand-alone consideration?

The transaction consideration is the amount of resources to which an entity expects to be entitled in the binding arrangement for satisfying its compliance obligations (47.4, 47.109). 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 (48.6). These amounts should be the same.

An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. (47.30)

The implementation Guidance in PBE IPSAS 48 states that 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. (48.F1)

It is proposed that for departments and offices of Parliament, the transaction consideration is the Total Revenue Crown figure per the Approved Crown Funding reconciliation in the Cash Payments Module of CFISnet. This is the best representation of the amount of resources to which an Crown expects to pay to compensate recipients for the costs they is incurring on outputs, and the amount departments and Offices of Parliament expect to receive. Note this does not include capital injections or withdrawals, GST or any planned movement in the Crown Debtor/Crown Creditor balance and therefore may be different from the cash requested and paid.

Similarly, for recipient entities of Crown revenue funding non-departmental output expenses, the transaction consideration should be the amount agreed for the operating (i.e. excluding capital) disbursement profile between the appropriation administrator and the reporting entity.

How should the transaction consideration be allocated?

The ED contains a number of paragraphs providing guidance for allocating the transaction consideration to the satisfaction of compliance obligations:

- When a binding arrangement is wholly unsatisfied (i.e. the entity hasn't started satisfying compliance arrangements and the resource provider has not paid or is not obligated to pay consideration) an entity shall not recognise any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement. (47.78).
- An entity may receive or have the right to an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. An entity should recognise an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of, and the recognition criteria for, an asset are met (47.80).
- An entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognises revenue over time, if one of the following criteria is met:
  a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs;

b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced; or
c) The entity has an enforceable right to consideration for performance completed to date (47.93)

- The objective when allocating the transaction consideration is for an entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations (47.133).

It is proposed that the most appropriate approach for **departments** and offices of parliament to give effect to these requirements is for them to recognise revenue as these entities incur authorised costs to be reimbursed through the Crown Funding process. This recognises that departments and offices of parliament have rights to reimbursement of expenses that have been incurred, but do not have rights to funding before it is needed (i.e. c) above). The revenue is recognised as the department or office of parliament satisfies the compliance obligation. This approach best meets the objective as set out in paragraph 133 of ED 47.

It is proposed that the most appropriate approach for recipient entities reporting revenue from government funding of **non-departmental** output expenses to give effect to these requirements is to recognise revenue in accordance with the timings in the disbursement profile negotiated with the entity. This recognises that those recipient entities have control of the asset at the point it is disbursed. Prior to that point in time, the Minister or appropriation administrator may decide not to incur expenses or capital expenditure for which appropriations exist and may change the disbursement profile. So, until then the reporting entities do not control the asset. This approach best meets the objective as set out in paragraph 133 of ED 47.

The distinction between departments and offices of parliament on the one hand and other recipients of Crown funding, rests primarily on the different approaches to liquidity management. For departments and offices of parliament, a centralised cash management system is in place, and funding is more clearly associated with need. Other recipients of Crown funding control their own liquidity management and funding is more clearly associated with the agreed disbursement profile. The proposed approach reflects this reality,

In terms of the non-departmental schedules reporting the expense from government funding of non-departmental output expenses would mirror the revenue recognition by the recipients. That should simplify the consolidation process. The non-departmental schedules do not report the funding of departments, as these are fully departmental transactions. The elimination of Revenue Crown, and any Crown debtor or Creditor (implicitly representing a transfer obligation or transfer right) against the disbursements reported by the Debt management office in the Treasury in the consolidated financial statements of Government would continue as occurs now.