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Tēnā koe Carolyn

Proposed new accounting standards for revenue and transfer expenses

Thank you for the opportunity to comment on the consultation documents titled “Proposed new revenue accounting standard” and “Proposed new accounting standard for transfer expenses” for public benefit entities. Thank you also for accepting a late submission.

As the auditor of all public entities in New Zealand, our feedback in the appendices is provided from a broader public sector perspective.

Overall, we support alignment with the respective International Public Sector Accounting Standards and the introduction of specific guidance for transfer expense transactions to fill the current gap in the PBE Standards.

Additional guidance, examples and clarity of the proposed principles will make implementation easier. We are happy to be engaged further, particularly as implementation guidance is produced.

If you have any questions in relation to this submission, please contact Gayani Dias
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Nāku noa nā

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Appendix A – PBE IPSAS 47 Revenue

Benefit vs cost consideration

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

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

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

We note that PBE IPSAS 47 provides a more robust framework for revenue recognition, reflecting the liability recognition criteria in the PBE Conceptual Framework, capturing all enforceable obligations. This will improve financial reporting across the public sector, although some entities will see minimal practical impact. We also see the benefits of applying principles closely aligned with the for-profit revenue accounting standard, especially for ‘mixed groups’.

We expect there will be considerable time and resource applied to make the required judgements on adoption of the standard, and that in most cases the accounting result may be the same or similar. The investment cost could be mitigated with more New Zealand specific illustrative examples.

Key principles for revenue accounting

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

The compliance obligation principle outlined in the ED is sufficiently clear, but the binding arrangement and enforceability principles need more clarity, guidance and illustrative examples – see comments below.

Distinguishing between revenue transactions arising from binding arrangements and those without binding arrangements may require significant judgement. It is not clear what the term “equivalent means” means and whether it is relevant in New Zealand. There is a need for more New Zealand-specific guidance and illustrative examples to determine enforceability arising from “equivalent means” that are “similar to force of law without being legal in nature” [AG15] as these terms can be subject to different interpretations in the public sector and lead to diversity in application.

We also note that the current PBE Standards do not refer to legal or “equivalent means” in describing a binding arrangement. As an example, refer to paragraph 19(b) and 20 of PBE IPSAS 31), which says that: “An asset is identifiable if it arises from binding arrangements (including rights from contracts or other legal rights) ...” and “For the purposes of this standard, a binding

arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract."

A binding arrangement exists only if all of the criteria in paragraph 56 are met. If not met, paragraph 58 says that revenue is recognised only if the consideration received is non-refundable and either the compliance obligation to which the consideration relates is fully satisfied or the binding arrangement has been terminated.

In contrast, under paragraph 29, *without* a binding arrangement, revenue is recognised when (or as) the entity satisfies any obligations. There is no requirement to fully satisfy the obligation. This may cause confusion.

We note that economically similar enforceable obligations can lead to different accounting outcomes in practice because the accounting for an enforceable obligation under the two models (*with* a binding arrangement and *without* a binding arrangement) is different (see example at #4 below).

Revenue recognition

3. Do you agree with the proposed approach to revenue recognition for transactions *without* binding arrangements? Are there any specific challenges you foresee in applying this approach?

We agree with the proposed approach that requires recognition of a liability for all obligations that meets the definition of a liability which is not limited to a return obligation (of resources) to the resource provider. However, we have a few observations, as follows.

We consider that there should be more guidance and examples of when a liability should be recognised and how it should be measured.

We think the guidance in C3 *Allocation of the Transaction Consideration* contradicts with paragraph 32, which requires a liability to be measured at the amount required to settle the obligation. Stand-alone value (defined as the price of a good or service) may not be the same as the amount required to settle an obligation which is strictly an expected cost approach (this can be seen in Example 35 Case A and Case A1, where CU500 for vaccine A is the price at which it was previously provided to the resource provider, whereas CU100 for vaccine B is based on the expected cost approach).

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

We agree with the proposed five-step approach for revenue recognition of transactions with binding arrangements.

A capital transfer is defined as *a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity.*

It is not clear why a capital transfer arises only in a binding arrangement [Paragraph 4, A1, D3 and AG140-142]. It would be useful if the rationale for this be included in the Basis for Conclusions.

We could see a scenario where an entity receives a resource (say property, plant and equipment) without a binding arrangement. Where this is the case, it could result in recognition that differs to that of a capital transfer. We suggest further consideration on whether different outcomes for seemingly similar fact pattern makes sense.

Implementation and specific issues

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

Resources received for internal use

With regards to recognition of revenue from resources received/receivable for internal use under a binding arrangement, BC9 to BC11 and Illustrative Examples 20A and 24A include the necessity to have ‘an unavoidable transfer of resources to another party’ as a consequence of non-compliance. However, the proposed standard does not include such a specific requirement (the Basis for Conclusions and the Illustrative Examples accompany, but are not part of, PBE IPSAS 47).

PBE IPSAS 47 does not appear to have explicit guidance on accounting for resources received for internal use *without* a binding arrangement.

Distinction between exchange and non-exchange transactions

We suggest the interaction between the proposed standard and PBE IPSAS 12, PBE IPSAS 17, PBE IPSAS 16 and PBE IPSAS 31 is reviewed and the distinction between exchange and non-exchange transactions in those standards is removed.

PBE IPSAS 47 does not distinguish between exchange and non-exchange transactions, but requires non-cash consideration to be initially measured at fair value in accordance with relevant PBE Standards [paragraph 30, 129, AG154, AG166.1].

PBE IPSAS 12 *Inventories* retains the concept of a *non-exchange* transaction [PBE IPSAS 12.16] and consequently introduces the definitions of exchange and non-exchange transactions to PBE IPSAS 12.9.

Does the interaction between the two standards mean that inventory acquired through an *exchange* transaction is not initially measured at fair value, although it is non-cash consideration in a revenue transaction per the Revenue standard - because paragraph 30 and 129 say “... at its fair value, in accordance with the relevant PBE Standard.” and PBE IPSAS 12 being the only relevant PBE Standard (noting PBE Standards do not include the equivalent of IPSAS 46 *Measurement*)?

Alternatively, should we disregard in accordance with the relevant PBE Standard, and focus on AG154(a) and initially measure inventory at fair value regardless of the type of transaction (exchange or non-exchange)?

Should PBE IPSAS 12 be amended, as follows, to be aligned with PBE IPSAS 47?

- For an entity receiving goods (that meets the definition of inventory) as consideration in a revenue transaction, distinguishing between exchange and non-exchange is not appropriate for initial measurement at fair value – what is relevant is that the consideration is non-cash, regardless of the type of transaction (exchange or non-exchange).
- For an entity receiving goods (that meets the definition of inventory) in a non-cash purchase transaction, cost should be equivalent to fair value of other consideration given to acquire the inventory. If that cannot be reliably measured, the cost should be measured, if practicable, at fair value of inventory acquired.

We noted similar inconsistencies between PBE IPSAS 47 and PBE IPSAS 17 *Property, Plant and Equipment*, PBE IPSAS 16 *Investment Property* and PBE IPSAS 31 *Intangible Assets*.

AG21 of PBE IPSAS 28 *Financial Instruments: Presentation*

It wasn't clear why AG21 refers to non-exchange revenue transactions, in a paragraph that refers to PBE IPSAS 47, which does not distinguish between exchange and non-exchange transactions. Can AG21 be aligned with the consequential amendments to AG114 of PBE IPSAS 41 *Financial Instruments*, which makes no separate reference to non-exchange transactions?

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

See above.

Disclosures and RDR concessions

6. Do you consider the disclosure requirements in PBE IPSAS 47 to be appropriate and proportionate to the needs of users of PBE financial statements?

Overall, the disclosure requirements seem to be excessive. We encourage the Board to field test the usefulness and the time and effort required to compile the disclosures.

For some public organisations, there will be many different transfer arrangement types. Where this is the case, the requirement to include the purpose of the arrangements, the significant payment terms and the nature of the resources transferred may be onerous, and will likely provide information beyond what is useful to a reader of those financial statements. It would help to reinforce the concept of materiality in the standard, to ensure that the disclosure requirements do not become too onerous.

Another example; it was unclear to us how useful paragraph 178 would be - "*Compliance obligations impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognised in respect of compliance obligations assists users in making judgements about the ability of the entity to use its assets at its own discretion.*"

Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 169(c)."

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

We consider that the proposed disclosure concessions for Tier 2 PBEs do not go far enough. The value of certain disclosures to users of Tier 2 financial statements is questionable.

We are happy to share some examples with the XRB.

Mandatory date and other comments

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

We believe the proposed mandatory adoption date of 1 January 2029 will provide public sector entities sufficient time to prepare for the transition, after PBE IPSAS 47 is issued as final standard in Q3 2026.

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

Valuation of non-cash consideration

We encourage your board to consider replacing fair value with 'current value' for valuation of non-cash consideration, consistent with IPSAS 47. The term 'current value' in IPSAS 47 covers both fair value for assets held for financial capacity and current operational value ('COV') for assets held for operational capacity. This change will require similar amendments to PBE Standards which currently do not include the concept of COV.

In our experience, the definition of fair value in the PBE Standards is not relevant and cannot be applied for certain public sector assets. As noted in the PBE Conceptual Framework, differences between entry and exit prices of specialised public sector assets can be significant and most assets are not carried with a view to obtaining a financial return.

Paragraph 56 (Accounting for the Binding Arrangement) under the 'Recognition' section of the proposed standard includes criteria of a binding arrangement. It would be clearer if that paragraph is included within the 'Identify whether a Binding Arrangement Exists' section (paragraph 11 to 16) consistent with the for-profit revenue accounting standard, NZ IFRS 15.

Measurement of tax revenue

We consider that the requirements for the measurement of tax revenue should be clearer. We consider that the measurement model should explicitly state whether the time value of money and issues of collectability (credit risk) should be taken into account in initial measurement. Further we question whether paragraphs 49 and 50 which we believe are meant to be about variable consideration are relevant to taxation revenue.

Our understanding is that the ED requires tax revenue to be measured at transaction consideration (paragraphs 30 and 45) by determining the best estimate of the inflow of resources (paragraph 45). This amount should "take account of both the probability that the

resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets” (paragraph 45).

Paragraph 46 discussing statistical models that consider the “history of collecting the particular tax” and “the timing of cash receipts from taxpayers”.

Our interpretation of the paragraphs referred to above is that the measurement model is very similar or the same as the fair value measurement requirement in PBE IPSAS 23 paragraph 67.

However, we find paragraphs 49 and 50 unclear in their meaning and applicability. These paragraphs are under the heading “Measurement of Taxes with Collection Uncertainty”, but the content covers recognising revenue when there is variable consideration. We are unclear whether collection uncertainty refers to credit risk or the broader risk that tax estimates will vary to subsequent assessed amounts (as discussed in paragraph 47). We are also unclear what “variable consideration” means in the context of tax revenue and suggest that is defined or clarified.

We question whether the requirements in paragraphs 49 and 50 are appropriate for measurement of tax revenue in New Zealand. The concept of “highly probable reversal will not occur” appears inconsistent with “best estimate of the inflow of resources” and may lead to deferral in the recognition of tax revenue compared to the current approach.

Basis for Conclusions and improve clarity

PBE IPSAS 47 is a comprehensive and much more complex standard in comparison to the PBE Standards for revenue recognition that will be superseded. The concepts and terminology of the two accounting models can cause confusion for preparers of the financial statements. Incorporating in PBE IPSAS 47 the Basis for Conclusions from IPSAS 47, and improving clarity and simplicity of the wording will make implementation easier.

Appendix B – PBE IPSAS 48 *Transfer Expenses*

Benefit vs cost consideration

1(a) What are the anticipated benefits of adopting the proposed 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 48? Please provide specific examples.

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

PBE IPSAS 48 is a much-needed standard to fill the current gap in PBE Standards for transfer expense transactions.

We note that the proposed standards will ensure consistent recognition principles for revenue and transfer expenses because the key principles in PBE IPSAS 48 align closely with PBE IPSAS 47 (provided the transfer recipient and the transfer provider consistently identify binding arrangements, enforceable rights and enforceable obligations).

Key principles in transfer expense accounting

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

Distinguishing between expense transactions arising from binding arrangements and those without binding arrangements may require significant judgement. There is a need for more New Zealand-specific guidance and illustrative examples to determine enforceability arising from “equivalent means” that are “similar to force of law without being legal in nature” [AG16] as these terms can be subject to different interpretations in the public sector and lead to diversity in application.

Recognition of transfer expense transactions

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

Conceptually, a transfer right meets the definition of an asset as explained in BC27 of IPSAS 48, because it embodies a resource (i.e., the right to direct how the transfer recipient is to use resources internally). This is similar to a prepayment in an exchange transaction.

We understand how a transfer right meets the definition of an asset in practice, when the transfer provider has an enforceable right to demand return of (or transfer to another party) the resources for non-performance even if the still owed performance does *not* contribute to

achieving the transfer provider's objectives (i.e., there is a resource which comprises of economic benefits, but no service potential).

However, in New Zealand public sector, we think there may be limited situations where the arrangement would meet the definition of a binding arrangement giving rise to transfer right assets.

4. Regarding the proposed approach to 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?

We agree with the proposed approach for transfer expense recognition for transactions *without* binding arrangements.

(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?

We are comfortable with social benefit transactions being included within the scope of PBE IPSAS 48. Because they are without a binding arrangement, recognition and measurement of related transfer expense will follow the requirements of PBE IPSAS 19 (proposed to be amended).

(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?

The proposed paragraph 34.1 to PBE IPSAS 19 can address social welfare payments and delivery of services separately, to align with paragraph 4.1 of PBE IPSAS 48.

With regards to social welfare payments, guidance can be more specific about the past event(s) that gives rise to a liability depending on the characteristics of each social benefit transaction, for example, meeting the eligibility criteria for a social benefit payment on or before the reporting date. Secondly, measurement of the liability based on each separate past event can be clearer.

With regards to delivery of services such as health and education services, reference can be made to paragraph 26 of PBE IPSAS 19, which states that no provision is recognised for future costs that are part of ongoing activities.

We have some concerns that the deletion of the existing Crown obligations paragraphs in PBE IPSAS 19 (11.1 to 11.3) and replacement by new paragraphs 34.1 and 34.2 may provide less clarity in determining whether or when to recognise Crown obligations as liabilities. The new hurdles for liability recognition seems to be:

"committed in the sense that it has little or no realistic alternative to avoid an outflow of resources".

We also consider that these amendments may change the current point at which some Government obligations are recognised as liabilities, including health services (to patients already sick) and other obligations arising from policy announcements.

Disclosure and RDR concessions

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

As we have highlighted in the submission, enforceability becomes the most critical aspect of a binding arrangement. Noting paragraph 61, further thought could be given as to whether the disclosure requirements capture the importance of this.

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

We think that paragraph 59(d) *Significant risks and uncertainties relating to the realisation of transfer right assets* should not be a Tier 2 disclosure concession.

Implementation and specific issues

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

See above.

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

See above.

Mandatory date and other comments

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

We believe the proposed mandatory adoption date of 1 January 2029 will provide public sector entities sufficient time to prepare for the transition, after PBE IPSAS 48 is issued as final standard in Q3 2026.

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

Basis for Conclusions and improve clarity

The concepts and terminology of PBE IPSAS 47 and PBE IPSAS 48 can cause confusion for preparers of the financial statements (e.g. transfer provider, transfer recipient, resource provider, transfer right etc.). Incorporating in PBE IPSAS 48 the Basis for Conclusions from IPSAS 48, and improving clarity and simplicity of the wording will make implementation easier.