



Australian Government

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Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
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NEW YORK 10017
UNITED STATES OF AMERICA

Dear Sir/Madam

**Exposure Draft ED 29 *Revenue from Non-Exchange Transactions*
(Including Taxes and Transfers)**

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the abovenamed Exposure Draft.

Revenue from non-exchange transactions is an important issue for public sector entities and is an issue that until now has not been comprehensively addressed at an international level. In the Board's experience, entities adopt a wide range of practices in accounting for revenues from non-exchange transactions. Accordingly, the Board welcomes the proposed IPSAS.

The Board supports the IPSASB's proposal to apply an assets and liabilities approach to accounting for revenue from non-exchange transactions, and accordingly thinks the Proposed Standard is a considerable improvement on the treatment of such transactions in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

However, the Board has some significant concerns with the Proposed Standard. It considers that the Proposed Standard contains the following significant inconsistencies:

- (a) its use of the definition of *conditions on transferred assets* is inconsistent, because the treatment of return obligations without performance obligations is departed from if it is expected that a stipulation will be breached (see the comments on Question (c)); and

- (b) it proposes two conflicting measurement bases for conditions on transferred assets that are advance receipts of taxes or transfers (see the comments on Question (k));

The Board's other significant concerns are that the Proposed Standard:

- (a) defines *conditions on transferred assets* as stipulations that the future economic benefits or service potential embodied in the transferred asset are required to be consumed by the recipient—therefore, some transfers of assets to the reporting entity in non-exchange transactions would be deemed not to give rise to a liability, even if the reporting entity must return the assets to the transferor if it does not achieve specified outcomes (see the comments on Question (c)); and
- (b) uses the wrong basis for distinguishing between those stipulations that give rise to liabilities and those that do not (see the comments on Question (e) in relation to the distinction between *restrictions on transferred assets* and *conditions on transferred assets*).

The AASB's specific comments on the questions asked in the Specific Matters for Comment are attached.

If you have queries regarding any matters in this submission, please contact Jim Paul (jpaul@aasb.com.au) or myself.

Yours sincerely



David Boymal
Chairman

Revenue from Non-Exchange Transactions (Including Taxes and Transfers)

Specific Comments

Question (a)

Do you agree with the proposal to exclude entity combinations that are non-exchange transactions from the scope of the Standard?

Yes.

Question (b)

Do you agree with the proposal to include within the scope of the IPSAS compulsory contributions to social security schemes (e.g. health and disability insurance, aged pensions) which are in the nature of non-exchange transactions?

In particular:

i) Do you think that these compulsory contributions to social security schemes should be explicitly excluded from the scope?

ii) Do you think that the ED gives enough guidance in respect of such compulsory contributions? If not, do you think the IPSAS should explicitly address these compulsory contributions and provide specific guidance to assist entities to determine to what extent such contributions should be considered as exchange transactions?

The Board agrees with the proposal to include compulsory contributions to social security schemes within the scope of the IPSAS if they are non-exchange transactions. However, it considers that it would be useful to include commentary that some compulsory contributions to social security schemes could be exchange transactions, and therefore outside the scope of the Standard.

The Board does not think guidance should be included in the IPSAS, because it agrees with the comment in paragraph BC27 that “the specific arrangements of social security schemes are highly jurisdiction dependent and it is not possible to provide in an international standard specific guidance that will deal adequately with arrangements in all jurisdictions”.

Question (c)

Do you agree with the defined terms set out in paragraph 8? These definitions have been developed by the IPSASB for this IPSAS. Please identify any amendments to the definitions that you consider necessary.

Conditions on transferred assets

Board members agreed that if a transferor has the ability to require the return of assets not consumed as stipulated, a liability arises. However, Board members expressed different views about the nature of that liability, and therefore about whether they agree with the definition of *conditions on transferred assets*. Those views include:

- (a) the liability is an obligation to consume assets in the provision of specified goods or services to third parties or to return the assets—that is, consistent with the proposal in the Proposed Standard, the performance obligation and return obligation are indistinguishable;
- (b) the liability is comprised of a performance obligation and a return obligation; and
- (c) the liability is a return obligation only.

Board members holding view (b) or (c) disagree with the Proposed Standard's co-mingling of performance obligations and return obligations in the definition of the liability *conditions on transferred assets*. They think that if either a performance obligation or a return obligation were to arise from a transaction, and it satisfies the recognition criteria, a liability should be recognised. They think it is unclear why both a performance obligation and a return obligation must be present for a liability to arise. In addition, these Board members think the co-mingling of performance obligations and return obligations in the definition of the liability *conditions on transferred assets* obscures the nature of the present obligation that exists, and makes it unclear how the measurement rules in IPSAS 19 should be applied to that liability (see the comments on Question (i)).

The Board thinks the Standard is inconsistent in its use of the definition, because the treatment of return obligations without performance obligations is departed from if it is expected that a stipulation will be breached.

The Board thinks it is problematic to define *conditions on transferred assets* as stipulations that the future economic benefits or service potential embodied in the transferred asset are required to be consumed by the recipient. This *consumption* requirement means that some transfers of assets to the reporting entity in non-exchange transactions would be deemed not to give rise to a liability, even if the reporting entity must return the assets to the transferor if it does not achieve specified outcomes.

The Board also observes that in some instances, the Proposed Standard's proposals might not achieve a matching of revenue recognition with the timing of service delivery.

Furthermore, the Board thinks there is not a substantive difference between some restrictions on transferred assets and conditions on transferred assets. However, the accounting for these similar stipulations would be very different, impairing the comparability of the information reported.

These concerns are elaborated on in the Appendix to this submission.

Exchange transactions and non-exchange transactions

The Board thinks that the definitions of *exchange transactions* and *non-exchange transactions* should be amended to clarify that approximately equal value in exchange is, or is not, respectively, given to the other party to the transaction. The Board proposes the following amended definitions (with additional words in bold and deleted words struck through):

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or ~~the use of assets~~) ~~to another entity~~ in exchange **to that entity**.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange **to that entity**, or gives value to another entity without directly receiving approximately equal value in exchange **from that entity**.

The wording of these definitions in the Proposed Standard is potentially confusing because in a non-exchange transaction (such as a revenue-sharing grant between different levels of government with general stipulations attached), the recipient could give approximately equal value “in exchange” by providing benefits to the community at large, and the transaction could be interpreted to meet either definition.

Control of an asset

Assets are defined as “resources controlled by an entity ...”. However, the Proposed Standard also includes a definition of “control of an asset”. There is a circularity here, as assets are by definition controlled. It therefore does not make sense to define control of an asset.

The Board suggests amending “control of an asset” to “control of resources”.

Question (d)

Do you agree with the proposal to distinguish exchange and non-exchange components of non-exchange transactions? Paragraphs 11 and 12 note that these transactions may comprise two components, one of which is an exchange transaction, each component of which is recognized separately.

The Board did not reach a consensus on this issue. This stems from a lack of consensus about the broader issue of whether revenue recognition requirements should be different for exchange transactions and non-exchange transactions. In this regard:

- (a) Some Board members think that for many transactions, it is unclear whether they are exchange or non-exchange in nature. They also consider that determining whether receipt of transferred assets gives rise to a liability should only involve an assessment

of whether the recipient is obliged to consume or transfer assets, and should not require identifying whether the transaction is exchange or non-exchange in nature. They think all public sector entities should apply the principles in IPSAS 9 *Revenue from Exchange Transactions* or IAS 18 *Revenue* to revenue recognition.

- (b) Other Board members think that the difference between exchange and non-exchange transactions is fundamental to whether a performance obligation arises from receipt of transferred assets in the transaction.

Board members holding the view described in (b) above agree in principle with the proposal to distinguish exchange and non-exchange components of non-exchange transactions. However, they note the discussion of this issue in paragraphs 11 and 12 is inconsistent. Paragraph 11 correctly says there may be a combination of exchange and non-exchange transactions, but also says non-exchange transactions may have exchange and non-exchange components. These Board members recommend deleting the reference to transactions having exchange and non-exchange components.

Question (e)

Do you agree with the proposal to include guidance to clarify that restrictions do not give rise to the recognition of a liability on initial recognition of the transferred asset (paragraph 20)?

Because of the difference of views between Board members described in the answer to Question (d) above, a Board view cannot be expressed on whether *restrictions on transferred assets*, as defined, give rise to a liability on initial recognition of the transferred asset(s). However, the Board is of the view that the distinction between *restrictions on transferred assets* and *conditions on transferred assets* is not the tipping point for identifying when a liability arises from receiving transferred assets. The reasons for this are explained below.

Some Board members think the distinction between *restrictions on transferred assets* and *conditions on transferred assets* is excessively rules-based and does not assist the identification of whether a receipt of transferred assets gives rise to a liability. They would simply assess whether the stipulations meet the definition of a liability. They agree with the comment in paragraph 16 of the Proposed Standard that the stipulations described in the definition of *restrictions on transferred assets* are performance obligations. However, they disagree that a return obligation must also exist for a liability to arise. These Board members think *restrictions on transferred assets* are liabilities if the stipulations are legally enforceable, regardless of whether a return obligation exists. For example, if the transferor can enforce specific performance of the purposes for which assets were transferred to the recipient, the Board members think a liability exists.

Other Board members think non-exchange transactions do not give rise to performance obligations, because a performance obligation arises when and only when the recipient is obligated to directly give approximately equal value in exchange to the transferor. Thus, they think that if assets are received in a non-exchange transaction, neither a *restriction on transferred assets* nor a *condition on transferred assets* gives rise to a performance obligation. These Board members hold the following views:

When goods and services are provided to third parties (beneficiaries) to satisfy a stipulation, the original transfer is an exchange transaction if the goods and services are provided on behalf of the transferor. Various transfers to not-for-profit entities are made to purchase goods and services on behalf of the transferor, such as a government or benefactor.

In contrast, in a non-exchange transaction, because the recipient does not have an obligation to provide goods and services to, or on behalf of, the transferor, it does not have a performance obligation to the transferor. Any stipulations on the use of assets transferred in a non-exchange transaction are conceptually indistinguishable from the fiduciary obligation of the not-for-profit entity to use of all of its assets to provide goods and services to beneficiaries in accordance with its mission. Such fiduciary obligations are not liabilities (if they were, all recognised assets would be matched by corresponding liabilities, which would blur the concept of the entity's liabilities). Instead, the stipulations impose restrictions on how the transferred assets are deployed.

Determining whether goods and services are provided to third parties *on behalf of the transferor* depends on the outputs for which the transferor portrays itself as being responsible, and may sometimes be unclear. In such cases, the Board members think the solution is to assume the transaction is an exchange transaction.

These Board members think a return obligation (which is present when a *condition on transferred assets* exists but not when a *restriction on transferred assets* exists) is a liability, but also think return obligations should be accounted for separately from so-called performance obligations. They disagree with the co-mingling of "performance obligations" and return obligations in the Proposed Standard's proposed treatment of *conditions on transferred assets*.

Question (f)

Do you agree with the proposal to require recognition of assets when resources are transferred or when the reporting entity has an enforceable claim to resources that are to be transferred (see paragraphs 33 – 34 and paragraph 80)? The ED notes that before a claim to a resource is enforceable, the resource does not meet the definition of "control of an asset" because the recipient reporting entity cannot exclude or regulate the access of the transferor to the resource.

Yes.

Question (g)

Do you agree with the proposal to measure assets acquired in a non-exchange transaction at their fair value on initial recognition and amend IPSAS 12, “Inventories”, IPSAS 16, “Investment Property” and IPSAS 17, “Property, Plant and Equipment” to be consistent with this requirement (see paragraphs 38 – 39 and the Appendix)? IPSAS 12 currently requires inventory to be initially recognized at cost, and IPSASs 16 and 17 currently require that where assets are acquired for no cost or a nominal cost, their cost is their fair value as at the date of acquisition.

Yes.

However, the proposed amendments to IPSAS 12, IPSAS 17 and IPSAS 17 retain the wording that says that “where an asset is acquired at cost or for nominal cost, its cost shall be deemed to be its fair value as at the date of acquisition”.

This wording can be interpreted such that the asset shall be initially measured at its cost (either nil or nominal cost), which shall be deemed to be its fair value. This is not the intention of this requirement, which is to record the acquisition at fair value. We recommend that the wording be amended to clarify the requirement as follows:

Where an asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition. (additional words underlined)

Question (h)

Do you agree with the proposal to require that a liability be recognized in respect of an asset transferred subject to conditions upon initial recognition of the transferred asset (paragraph 50)? When the condition has been satisfied the liability is reduced, or derecognized, and revenue recognized.

Alternatively, do you consider that the IPSAS should only require the recognition of a liability when it is more likely than not that the condition will not be satisfied (see paragraph BC11)?

In addition, are you of the view that the requirements relating to the recognition of a liability in respect of a condition applies equally to depreciable and non-depreciable assets?

The Board did not reach a consensus on whether it agrees with the definition of *conditions on transferred assets*, and therefore on how to account for those conditions. However, the Board disagrees with certain aspects of the proposed treatment of those conditions (see the Board’s comments on the definition of *conditions on transferred assets* in Question (c)).

The Board thinks the requirements relating to the recognition of a liability in respect of a condition *should* apply equally to depreciable and non-depreciable assets, but considers that

applying the ED's proposals would not lead to that outcome, for the reasons given in the Appendix in respect of Question (c).

Question (i)

Do you agree with the proposal to require liabilities related to inflows of resources to be measured according to the requirements of IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" (paragraph 52)?

The Board did not reach a consensus on this issue.

Some Board members agree with the proposed measurement basis.

Some other Board members think that because a return obligation is necessary for a *condition on transferred assets* to exist (and thus is necessary for recognition of a liability, under the Proposed Standard), until the assets are consumed in the manner stipulated, the liability should generally be measured at the fair value of the transferred assets (the initial carrying amount of the assets by the transferee) because that is the value of the assets that the transferor can demand be returned. However, they also think that if the contract with the transferor is onerous (that is, if the transferor can enforce the stipulation that specified goods or services are to be provided, and the best estimate of the related sacrifice of future economic benefits or service potential exceeds the fair value of the transferred assets), a provision for an onerous contract should be recognised under IPSAS 19.

This second group of Board members also thinks that if the transferred asset is cash or another financial asset, the return obligation is a financial liability. They think the financial liability should be measured consistently with the approach recommended in the paragraph immediately above. That is, consistent with IAS 39 *Financial Instruments: Recognition and Measurement*, the liability should generally be measured at amortised cost using the effective interest method. This amount would generally be the fair value of the transferred asset. However, if the first date at which return of the assets could be required is sufficiently far into the future that the effect of discounting the obligation to its present value is material:

- (a) the initial carrying amount of the financial liability would be the present value of the amount that can be required to be returned; and
- (b) subsequently, the liability would be increased by the cumulative amortisation of the discount reflected in the initial measurement.

Whilst they acknowledge that an IPSAS equivalent to IAS 39 has yet to be developed, those Board members consider that IAS 39 provides sound principles for the measurement of liabilities that incorporate return obligations. Arguments for and against measuring liabilities under IAS 39 when they incorporate return obligations are set out in the Appendix.

Yet other Board members think it is unclear how the measurement rules in IPSAS 19 should be applied to a liability in the form of a condition on transferred assets, because they consider the Proposed Standard has not clearly identified the nature of the present obligation that exists. They argue that it would be logical to measure an obligation to consume future economic benefits or service potential embodied in a transferred asset initially at the fair

value of the transferred asset and subsequently at the asset's carrying amount. However, this would not be consistent with the measurement rules in IPSAS 19. In addition, they argue, it would be appropriate to measure the return obligation at the amount to be returned, but only if it is probable that a return will be required (see the recognition criterion in paragraph 45(a) of the Proposed Standard). Furthermore, they note that this amount could differ from the best estimate of the expenditure required to settle the performance obligation at the reporting date. These Board members are concerned that the Proposed Standard seemingly would require a transferee to measure these different obligations (the performance obligation and the return obligation that comprise the liability entitled "condition on transferred assets") simultaneously, although the consumption of the future economic benefits or service potential embodied in the transferred asset and the return of the transferred asset are mutually exclusive outcomes.

An example of the ambiguity involved with applying the Proposed Standard's measurement recommendation is that it is unclear how to measure under IPSAS 19 the liability for a partly performed stipulation to consume all of the future economic benefits or service potential embodied in a transferred asset or return to the transferor the value of the asset originally transferred. Should the co-mingled performance obligation and return obligation be measured at the greater of the unconsumed future economic benefits in the transferred asset and the amount that can be required to be returned, at the lesser of these two amounts, at the value of the outcome that is probable to occur, at the sum of the values of each possible outcome weighted by their respective probabilities of occurrence, or at some other combination of the two obligations?

As mentioned in the Board's comments on Question (c), some Board members think return obligations should be recognised and measured on a stand-alone basis (that is, without depending on whether a "performance obligation" also exists).

Of these Board members, some think return obligations should be measured at an amount that reflects the probability of the stipulation being breached and return being required, adjusted for risk. The fair value of the obligation would reflect this amount, as would a measure determined by applying IPSAS 19. Their key point is that such a measure would not be equivalent to the amount of the transferred assets, except by coincidence. Under their proposal, and their view that the only liability that can arise from a non-exchange transaction is a return obligation, when the probability is low that a return will be required, revenue would be recognised for most of the fair value of the transferred assets when the transfer occurs. This would seem likely to be the usual situation, because entities generally would not agree to receive assets they are unlikely to qualify to keep. These Board members think that when the probability of the return is remote, applying the concept of materiality, it may be appropriate to recognise revenue for the whole amount of the fair value of the transferred assets received.

Some other Board members who think return obligations should be recognised and measured on a stand-alone basis think it is premature for the IPSASB to indicate how such an obligation should be measured. They observe that return obligations are contractual obligations, and that the International Accounting Standards Board is developing a model for the recognition and measurement of contractual rights and obligations in its work on Revenue Recognition and Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. These Board members think the solution to the question of how to account for return obligations may depend on the outcome of the IASB's work on that model, because it might

be decided that the treatment of contractual rights and obligations should be the same regardless of the sector in which a reporting entity operates.

Clarifying the implications of the Measurement proposals

An important implication of the proposed measurement basis for liabilities arising from conditions on transferred assets is that these liabilities are measured independently of the related transferred assets. Therefore, revenues/gains and expenses/losses could be recognised on initial recognition of the transferred assets and related liabilities.

The Board observes that this implication of the proposed measurement basis for liabilities in respect of conditions on transferred assets is not spelled out in the Proposed Standard, and thinks it should be. This issue is elaborated on in the Appendix.

Question (j)

Do you agree with the proposal to require a non-exchange transaction that gives rise to the recognition of an asset to also give rise to the recognition of revenue to the extent that a liability is not recognized (paragraph 54)? Are there any non-exchange transactions in which it would be appropriate to initially recognize the gross inflow of economic benefits or service potential represented by the asset as revenue even if a liability is also recognized, with the simultaneous recognition of an expense for the liability?

Yes, without exception.

Paragraph 54 gives rise to an unintended consequence. If a non-exchange transaction were a contribution from owners, paragraph 54 would require it to be recognised as revenue because a liability would not be recognised in respect of the inflow. The Board recommends that paragraph 54 should also preclude recognition of revenue to the extent that a non-exchange transaction is a contribution from owners.

Question (k)

Do you agree with the proposal to require a reporting entity to recognize liabilities in respect of advance receipts related to taxes (see paragraph 67) and advance receipts related to transfers (see paragraph 105)?

The Board observed that the Proposed Standard proposes two conflicting measurement bases for conditions on transferred assets that are advance receipts of taxes or transfers. Paragraphs 52 and 53 require the measurement basis in IPSAS 19 to be applied to all liabilities arising from non-exchange transactions, whilst paragraphs 105 and BC21 say a liability for advance receipts is to be measured at an amount equivalent to the recognised amount of the transferred assets. Under IPSAS 19, liabilities would not be measured at such an amount, except by coincidence.

For the purpose of the following discussion, this submission assumes the measurement basis for advance receipts proposed in ED 29 is an amount equivalent to the recognised amount of the transferred assets (as per paragraphs 105 and BC21).

The Board did not reach a consensus on which of the above measurement bases should be applied to liabilities for advance receipts. Some Board members agree with measuring a liability for advance receipts at an amount equivalent to the recognised amount of the transferred assets. They think advance receipts in respect of taxes and transfers are essentially the same as advance receipts in exchange transactions, the liabilities for which are generally measured at an amount equivalent to the recognised amount of the transferred assets. Some of them also consider that advance receipts are financial liabilities with a demand feature. These Board members observe that IAS 39 *Financial Instruments: Recognition and Measurement* requires financial liabilities to initially be measured at fair value (plus, for some financial liabilities, directly attributable transaction costs—which are ignored here for the sake of simplicity). They also observe that IAS 39 requires the fair value of a financial liability with a demand feature to be not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Whilst they acknowledge that an IPSAS equivalent to IAS 39 has yet to be developed, they consider there is no apparent reason why different measurement requirements should apply in the public sector to liabilities with a demand feature.

Other Board members disagree with measuring a liability for advance receipts at an amount equivalent to the recognised amount of the transferred assets. They think advance receipts in respect of taxes and transfers are fundamentally different from advance receipts in exchange transactions. They also think the same measurement basis should be applied to all liabilities arising from non-exchange transactions, and that this basis should be that set out in IPSAS 19. The views of these Board members about the arguments in the Proposed Standard for the proposed treatment of advance receipts are set out in the Appendix.

Question (l)

Do you agree with the proposal not to permit the netting of expenses paid through the tax system (see paragraphs 72 – 76) against taxation revenue? Instead such expenses must be recognized separately on a gross basis. The ED distinguishes between expenses paid through the tax system and tax expenditures, and notes that tax expenditures are foregone revenue, not expenses.

Yes.

Question (m)

Do you agree with the proposal to permit recognition of services in-kind that satisfy the recognition requirements (see paragraphs 99 – 103) and require disclosure of the nature and type of services in-kind received, whether recognized or not (paragraphs 107 – 108)?

Recognition of services in-kind

The Board disagrees with the Proposed Standard's free choice as to whether services in-kind are recognised.

Many entities would not be able to meet their objectives without the receipt of services in-kind. Information about the level of services in-kind received is therefore essential to understanding the financial performance of some entities.

The Board thinks that, in principle, receipts of transferred assets, whether in the form of goods or services, should be recognised when and only when:

- (a) it is probable that the future economic benefits or service potential embodied in the assets will flow to the entity; and
- (b) the fair value of the assets can be measured reliably.

However, the Board acknowledges that it may often be difficult to measure reliably the fair value of services in-kind. For example, the fair value of some volunteer services may not be able to be measured reliably, especially when such services would not have been purchased if they had not been donated. In addition, the Board acknowledges that simply requiring services in-kind to be recognised when their fair value can be measured reliably may cause considerable debate as to which services would meet that criterion. Therefore, the Board thinks services in-kind should be required to be recognised as assets and revenue when and only when:

- (a) the fair value of those services can be measured reliably; and
- (b) the services would have been purchased if they had not been donated. (If this criterion were satisfied, the "probable future economic benefits or service potential" test would automatically be satisfied.)

The Proposed Standard says it does not require the recognition of services in-kind "due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services" (para. 103). However, it acknowledges that "Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind which are otherwise readily available in the national or international marketplace" (para. 102). This seems to support the Board's proposal above.

The Proposed Standard says some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided (para. 102). It does not provide examples of these services. Perhaps what is meant is that in some instances, services in-kind are provided with minimal direction by the recipient's management, with the result that it cannot be established that the services provide future economic benefits to the recipient—in other words, the recipient controls the results of the services, but the services might not meet the benefit criterion in the definition of an asset. The Board thinks this aspect should be clarified, because it thinks the issue relates to whether economic benefits arise rather than whether any benefits are controlled.

Disclosure of services in-kind

The Board supports the proposal to require disclosure of the nature and type of services in-kind received, whether recognised or not. Paragraph 114 says this disclosure is required by paragraph 107(e), although such a sub-paragraph does not exist. The Board assumes the first sentence of paragraph 108 was intended to be paragraph 107(e). The Board thinks it would be useful to clarify the level of detail expected for this disclosure. For example, paragraph IG48 says a hospital should disclose the number of hours of unrecognised service provided by volunteers and a description of those services. However, in some cases, such a disclosure might be costly to provide and of little information value if volunteer activities are not closely controlled. In such a case, a more general disclosure of the nature of the services and the number of volunteers involved might be more appropriate.

Question (n)(i)

Do you agree with the proposal to provide entities a five year period in which to conform their accounting policies in respect of taxation revenue to the requirements of this Standard (See paragraphs 115 – 122)?

Yes, with the key exception discussed below.

The Proposed Standard implies that after a five-year period from first adoption of the Standard, the fair value of virtually all types of taxation revenue will be capable of reliable measurement in the same reporting period as the taxable event. For instance:

- (a) the second sentence of paragraph 112 of the Proposed Standard indicates that it will only be in exceptional circumstances that an entity is unable to measure reliably the assets and revenue from taxes until one or more reporting periods has elapsed since the taxable event occurred;
- (b) the last sentence of paragraph 119 of the Proposed Standard says entities “may require five years to fully develop a reliable model for measuring income tax revenue”; and
- (c) paragraph 117 of the Proposed Standard requires disclosure of an entity’s progress, during the transitional period, “towards implementation of accounting policies that are consistent with this Standard”. This implies that recognising some forms of taxation revenue in a subsequent reporting period to the taxable event is an accounting policy that is not consistent with the Standard.

The Board thinks that for some major classes of taxation revenue, reliable measurement of the fair value of taxation revenue during the same reporting period as the taxable event might never be feasible. For these classes of taxation revenue (such as personal and corporate income taxes, and superannuation taxes), providing a five-year (or longer) period for applying the Standard’s policies for the recognition of taxation revenue would not address adequately the difficulties with reliable measurement of the fair value of taxation revenue when the taxable event occurs.

The Board observes that the Proposed Standard says “An entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met” (paragraph 60) and that one of the asset recognition criteria is that “the fair value of the asset

can be measured reliably” (paragraph 31(b)). The Board thinks the text in the Proposed Standard referred to in (a) to (c) above is inconsistent with those fundamental principles, and should be amended accordingly.

Similarly, the Board thinks paragraph 71 of the Proposed Standard should be amended to clarify that an inability to measure reliably the fair value of taxation revenue during the same reporting period as the taxable event need not be a rare or exceptional event, and, when the fair value estimates depend heavily on assumptions about future events, need not only occur when the tax base is volatile (see the second sentence of paragraph 71).

Question (n)(ii)

Do you believe that transitional provisions should be provided in respect of other non-exchange transactions?

Yes.

The Board thinks consideration needs to be given to the practicality of requiring public sector entities to recognise all assets received in previous non-exchange transactions when the Standard is first applied. Some public sector entities may have considerable difficulty complying with the requirements to recognise assets contributed in non-exchange transactions at their fair values at the date of the contribution and the related liabilities, particularly if the transactions occurred many years ago and the conditions relating to those assets have been partly satisfied prior to the application of the Standard.

Other Comments

Performance obligations

Some Board members think the degree of specificity of stipulations should determine whether receiving transferred assets gives rise to a performance obligation. They consider that a performance obligation arises from receiving assets if the related stipulations specify the nature and volume of goods and services to be provided with those assets, and those stipulations are enforceable. However, some other Board members disagree, because they think that specifying the nature of the goods and services to be provided is a sufficiently specific stipulation for a performance obligation to arise from a transfer. Yet other Board members think the specificity of the stipulations is irrelevant to whether a performance obligation arises from receiving assets, because the existence of a performance obligation depends on whether the recipient is obligated to directly give approximately equal value in exchange to the transferor.

Delivery and installation costs

Paragraph 14 of the Proposed Standard says that if a reporting entity is required to pay delivery and installation costs in relation to the transfer to it of an item of plant from another entity, those costs are recognised separately from revenue arising from the transfer of the item of plant (that is, the costs are not deducted from the revenue). The Board thinks it would be useful if paragraph 14 noted that such costs should be capitalised in accordance with IPSAS 17 *Property, Plant and Equipment*.

Flowchart on page 16

The first question asked in the flowchart illustrating the recognition requirements of the Proposed Standard is whether the inflow gives rise to an item that meets the definition of an asset. The Board thinks it would be useful to add a footnote indicating that the inflows to which this question applies include assets that are consumed immediately.

Enforceability of laws and regulations

Paragraph 17 could be interpreted to be inconsistent with paragraph BC9 in relation to the enforceability of laws and regulations, in the context of the requirement (with which the Board agrees) that a stipulation must be enforceable to meet the definitions in the Proposed Standard.

Paragraph 17 indicates a “term in laws or regulations or other binding arrangements (may be) unenforceable”. However, paragraph BC9 implies that the Board has confirmed the proposal in the Invitation to Comment that “terms imposed on the use of transferred assets are contained in laws, regulations or other binding arrangements, and are by definition enforceable”. Paragraph BC9 is ambiguous because it seems to conflate the need for terms to be enforceable to qualify as stipulations with the issue of whether laws and regulations are always enforceable.

Measuring revenue after initial recognition of a condition (liability)

Paragraph 58 deals only with the measurement of revenue related to the initial recognition of the related assets. The Board recommends that paragraph 58 be amended to address measurement of revenue from non-exchange transactions at all stages, including the measurement of revenue as conditions are satisfied. An example of such an amendment is marked up below:

Revenue from non-exchange transactions shall be measured:

- at the amount of the increase in net assets recognized by the entity as at the date of initial recognition of assets arising from the non-exchange transaction; and
- when conditions on transferred assets are satisfied, at the amount equal to the recognized reduction in the related liability.

Appendix

Background to Answers; Other Comments

Question (c)

Definition of *Conditions on Transferred Assets*

The Basis for Conclusions does not clarify why a performance obligation gives rise to a liability only when a return obligation exists. It says a condition gives rise to a liability of the recipient of the transferred asset “because the recipient is unable to avoid an outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties as specified, or else return to the transferor future economic benefits or service potential” (para. BC10). Paragraph 23 of the Proposed Standard creates potential confusion by describing a performance obligation as a requirement to “consume the future economic benefits or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor”—thus describing a performance obligation in the same manner as paragraph 16 of the Proposed Standard describes both a performance obligation *and* a return obligation.

The Board thinks that if the IPSASB retains its proposed policies for the definition and treatment of conditions on transferred assets, it should clarify why a performance obligation gives rise to a liability only when a return obligation exists.

The Proposed Standard’s co-mingling of performance obligations and return obligations causes problems for liability recognition when only a return obligation exists. This is illustrated by the problems mentioned in the section below.

“Consumption” requirement

The Board thinks it is problematic to define *conditions on transferred assets* as stipulations that the future economic benefits or service potential embodied in the transferred asset are required to be consumed by the recipient. This *consumption* requirement means that some transfers of assets to the reporting entity in non-exchange transactions would be deemed not to give rise to a liability, even if the reporting entity must return the assets to the transferor if it does not achieve specified outcomes. For example:

- (a) If land is transferred with the stipulation that it be deployed for a particular purpose or returned to the transferor, it is unlikely that the stipulation would be classified as a condition, because many would regard the future economic benefits or service potential embodied in land not to be consumed through use, except in unusual cases like mineral extraction. Thus, a liability would be unlikely to be recognised, even though the recipient has a return obligation. In contrast, if a building were transferred with the same stipulation, a condition would be identified and a liability would be recognised. The Board thinks the form of a transferred asset should determine neither whether the recipient incurs a present obligation, nor when revenue should be recognised.
- (b) If funds are transferred to the reporting entity with a stipulation that it must raise a matching contribution or return the funds, the stipulation would not be classified as a

condition, because the future economic benefits or service potential embodied in the asset are not required to be consumed by the recipient. Thus, a liability would not be recognised, even though the recipient has a return obligation.

To overcome the problems noted in (a) above, *conditions on transferred assets* could be defined more broadly to include circumstances in which the entity must perform particular acts, without necessarily having to consume the future economic benefits or service potential embodied in the transferred asset. However, in that case, if a non-consumable asset such as land were subject to a permanent stipulation that it must be used for a particular purpose or returned to the transferor, a perpetual liability would be recognised in respect of the condition on that transferred asset. If that liability were regarded as comprising a performance obligation and a return obligation, it might be measured at the same amount as (or an amount close to) the fair value of the transferred asset. If this were the case, revenue would never be recognised. Some Board members think this treatment would appear not to be representationally faithful, because the recipient has gained by receiving an asset that is not consumed.

Stipulations that matching contributions must be obtained

In relation to (b) above, the Proposed Standard says that if funds are transferred to the reporting entity with a stipulation that it must raise a matching contribution or return the funds, “a return obligation does not arise until such time as it is expected that the stipulation will be breached and a liability is not recognized until the recognition criteria have been satisfied” (para. 25). Omitting to recognise a liability when such a transfer occurs is consistent with the Proposed Standard’s approach that a return obligation without a performance obligation does not give rise to a condition on transferred assets.

However, when it is expected that the stipulation will be breached, this approach is departed from and a liability is recognised. The logic of recognising a liability in this circumstance is unclear, because a related performance obligation does not exist (that is, a stipulation to raise matching contributions is not a stipulation to *consume* the future economic benefits or service potential embodied in the transferred asset) and, therefore, the stipulation does not meet the definition of *conditions on transferred assets*.

As noted above, some Board members think that, unlike the proposals in the Proposed Standard, if a return obligation alone exists, it should be recognised as a liability if the recognition criteria are met. This would enable consistency in the timing of recognition of return obligations—unlike the Proposed Standard, under which:

- (a) return obligations related to stipulations to consume transferred assets are recognised when the transferred assets are recognised; but
- (b) return obligations related to stipulations to obtain matching contributions are not recognised until it is expected that the stipulation will be breached.

Comparability

Some restrictions on transferred assets are, in substance, highly similar to conditions on transferred assets, but only the latter gives rise to liability recognition under the Proposed Standard. These restrictions are stipulations that future economic benefits or service potential embodied in the transferred assets must be consumed by the recipient as specified or future

transfers to the entity will be reduced or discontinued. Such stipulations would otherwise meet the definition of conditions on transferred assets, but fail to do so because future economic benefits or service potential are not required to be returned to the transferor if the assets are not consumed as directed.

The Board notes that paragraph 19 of the Proposed Standard says “As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes.”

However, the Board thinks there is a substantive difference between returning an asset (or transferring other assets) and ceasing to qualify for future inbound transfers of assets. The former involves an outflow of an asset of the entity; the latter does not. The IPSASB definition of a liability requires an outflow of assets. If the entity failed to honour a stipulation attaching to an asset, it would forgo the opportunity to receive assets in the future, but this is not an outflow of assets. The IPSASB’s concept of a liability does not extend to opportunities forgone.

The Board considers that treating transfers differently according to whether stipulations are that (1) future transfers to the entity will be reduced or discontinued, or (2) assets will need to be returned to the transferor, would impair the comparability of financial statements.

Timing differences between service delivery and revenue recognition

The co-mingling of performance obligations and return obligations in the definition of conditions on transferred assets might cause the timing of service delivery and revenue recognition to differ. This depends on how the measurement requirements of IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* would be applied. As illustrated below, in some cases, it is not clear how those requirements should be applied.

Consider two education institutions, each of which receives a \$30 million grant to finance the construction of a new building with an estimated useful life of 30 years. Assume that:

- (a) the grant agreement for Institution A stipulates that if, at any time during the next 30 years, the building ceases to be used for teaching, the same proportion of the grant as the *unexpired portion* of the 30-year period at the time of cessation would be repayable to the transferor (e.g., if cessation occurred after 20 years, \$10 million would be repayable); and
- (b) the grant agreement for Institution B stipulates that if, at any time during the next 30 years, the building ceases to be used for teaching, the *whole amount of the grant* would be repayable to the transferor.

After 20 years of using the building in the specified manner, Institution A would have reduced its liability proportionately, for example to \$10 million, and would have recognised revenue for each period of the building’s use. This is because Institution A’s performance obligation and return obligation reduce rateably over time.

However, the co-mingling of the performance obligation and return obligation in the definition of *conditions on transferred assets* makes it unclear how Institution B’s liability for its condition would be measured under IPSAS 19 part way through the specified period of

use. Under one interpretation, the treatment would be the same as for Institution A and, after 20 years of use, the liability would have been reduced proportionately, for example to \$10 million. Under another interpretation, the fact that the whole amount of the grant would be repayable if the specified use of the building ceased trumps the fact that two-thirds of the specified period of the building's consumption has elapsed, and the liability would remain unchanged at \$30 million.

Under the latter interpretation, Institution B would recognise no grant revenue until the 30-year term of the stipulation expires. If that interpretation were correct, it would mean that under the Proposed Standard's proposals:

- (a) the timing of the specified service delivery can differ from the timing of revenue recognition; and
- (b) economically similar situations can be accounted for very differently, impairing the comparability of different entities' financial statements.

Question (i)

Measuring Liabilities arising from Transfers of Assets in Non-Exchange Transactions According to the Requirements of IPSAS 19

An important implication of the proposed measurement basis for liabilities arising from conditions on transferred assets is that these liabilities are measured independently of the related transferred assets. Therefore, revenues/gains and expenses/losses could be recognised on initial recognition of the transferred assets and related liabilities. For example, a transfer could be made on the condition that the recipient:

- (a) provides a specified volume of services to beneficiaries or returns part or all of the transferred assets to the transferor; and
- (b) is entitled to retain any unused part of the transferred assets if it honours its performance obligation, but also incurs any losses if the cost of providing the services exceeds the amount of the transferred assets.

The transferor may establish such an arrangement as an incentive for improving the efficiency of service delivery by the recipients of transferred assets.

Assume that, based on its long-term experience with providing these services, the recipient calculates that its risk-adjusted estimated cost of providing the services plus its return obligation are less than the fair value of the transferred assets. Applying paragraphs 52-54 of the Proposed Standard, the recipient arguably would recognise revenue for the amount of that difference when it initially recognises the transferred assets and related liability.

The Board observes that this implication of the proposed measurement basis for liabilities in respect of conditions on transferred assets is not spelled out in the Proposed Standard, and thinks it should be.

Arguments for and against measuring liabilities under IAS 39 when they incorporate return obligations in respect of financial assets

Some Board members acknowledge that an IPSAS equivalent to IAS 39 has yet to be developed, but consider that IAS 39 provides sound principles for the measurement of liabilities that incorporate return obligations in respect of financial assets. Their reasons for regarding such liabilities as financial liabilities are set out below, together with arguments for a contrary view.

Board members who support measuring liabilities under IAS 39 when they incorporate return obligations in respect of financial assets observe that the definition of a “financial liability” in IPSAS 15 *Financial Instruments: Disclosure and Presentation* includes “any liability that is a contractual obligation: (a) to deliver cash or another financial asset to another entity”. They also observe that paragraph 19 of IPSAS 15 includes:

“The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender’s ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower.”

Therefore, they conclude that the contingent nature of the return obligation does not preclude the existence of a financial liability.

The text quoted above from IPSAS 15 was also in the 1998 revision of IAS 32 (on which IPSAS 15 was based) but not the subsequent reissue of IAS 32 resulting from the IASB’s Improvements project. The current text of IAS 32 includes:

“If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. For example: ... (b) a contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.” (paragraph 19)

Board members who support measuring liabilities under IAS 39 when they incorporate return obligations in respect of financial assets argue that, even under the current version of IAS 32, the contingent nature of the return obligation in respect of financial assets does not preclude the existence of a financial liability. This is because whenever it is beyond the control of the transferee to avoid being required to return a financial asset, the transferee does not have an unconditional right to avoid delivering a financial asset to settle its contractual obligation. This would be the case, for example, when the transferor provides financial assets to the transferee subject to the stipulation that it must raise a matching contribution or return the financial assets (this is the example in paragraph 25 of the Proposed Standard).

These Board members argue that, if IAS 39 were applied to the recognition and measurement of return obligations in respect of financial assets, it would be inconsistent to recognise such

obligations only when it is expected that the stipulation will be breached (as is proposed in paragraph 25 of the Proposed Standard). This is because the recognition criterion for financial liabilities in IAS 39.14 does not require an expected (or probable) future outflow of economic benefits.

These Board members also indicate that under the guidance on “contingent settlement provisions” in IAS 32.25, if an entity could be required to return financial assets upon the occurrence or non-occurrence of an uncertain future event beyond the control of both the issuer and holder of the instrument (such as an inability to raise matching contributions), the return obligation would be a financial liability.

Those who disagree with measuring liabilities under IAS 39 when they incorporate return obligations in respect of financial assets observe that, with exceptions unrelated to this Proposed Standard, IPSAS 15, IAS 32 and IAS 39 apply only to financial instruments. A *financial instrument* is defined as:

“any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity” (IPSAS 15.9; IAS 32.II—with the exception of “both”)

Therefore, in order for a financial liability within the scope of IPSAS 15, IAS 32 or IAS 39 to exist, there must be a corresponding financial asset. Arguably, a liability that incorporates a return obligation in respect of financial assets could only give rise to a financial asset in the form of “a contractual right to receive cash or another financial asset from another entity” (IPSAS 15.9; IAS 32.11). Arguably, also, such a contractual right must be an *unconditional* right to receive a financial asset. Under that view, a return obligation would not be a financial liability until a breach of the stipulation for retention of the transferred financial asset occurs, because until that event occurs, the transferor’s asset is a right to the transferee’s guarantee that it will return the financial asset *if* it fails to meet the criteria for retention of that asset. The transferor has no right to receive a financial asset if the transferee consumes the transferred asset as specified.

Those who disagree with measuring liabilities under IAS 39 when they incorporate return obligations in respect of financial assets observe that the “contingent settlement provisions” in IAS 32.25 apply to financial instruments, and refer to “events ... beyond the control of both the issuer and holder of the *instrument*” (emphasis added). Therefore, they argue, IAS 32.25 supports the classification of return obligations in respect of financial assets as financial liabilities only if the promises between the transferor and transferee constitute a financial instrument. For the reasons in the immediately preceding paragraph, they argue that a financial instrument does not exist in such an arrangement.

Question (k)

Timing of Recognising Taxes as Revenue & Related Treatment of Advance Receipts

As noted in the comments on Question (k), some Board members disagree with measuring a liability for advance receipts at an amount equivalent to the recognised amount of the transferred assets. They think advance receipts in respect of taxes and transfers are fundamentally different from advance receipts in exchange transactions. Set out below are the Proposed Standard's reasons for recognising a liability of an equivalent amount in respect of assets recognised for advance receipts (in italics), followed by these Board members' views in respect of those reasons:

- (a) *In respect of advance receipts of taxes, "... the past event that gives rise to the entity's control of the asset has not occurred, notwithstanding that the entity has already received an inflow of resources" (ED, para. 67).*

These Board members disagree with this statement that an entity recognises an asset for taxes received prior to the taxable event occurring, although it does not yet control the asset. It says an item that fails the definition of an asset should nonetheless be recognised as an asset.

Generally, when taxes are received prior to the taxable event occurring, the recipient *does* control the resources received (money) because it can use them to acquire assets, settle debts, or earn interest. A return obligation, if it exists, does not nullify control of those resources. Therefore, these Board members do not disagree with the recognition of an asset but, rather, disagree with this rationale for the recognition of a related liability.

- (b) *In respect of advance receipts of taxes and transfers, it "is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs" (para. BC21).*

These Board members think it is a circular argument to say recognition of an equivalent liability for advance receipts is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. This is because identifying the event that gives rise to revenue requires identifying whether the receipt of assets gives rise to an equivalent liability. This in turn requires identifying the nature of the present obligation that advance receipts give rise to. That issue is addressed in the reasons set out in (c) and (d) below.

- (c) *Advance receipts in respect of taxes and transfers are not fundamentally different from other advance receipts (para. 67, 105 and BC21).*

The Proposed Standard says advance receipts in respect of taxes and transfers are not fundamentally different from other advance receipts, which implicitly are advance receipts in exchange transactions. In respect of advance receipts of taxes, these Board members disagree for the following reasons.

Exchange transactions in which the counterparty prepays for goods or services give rise to performance obligations. (Paragraph 16 of the Proposed Standard describes "performance obligations" as obligations that "require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose".) In exchange transactions, liabilities arising from prepayments for performance are generally measured at

an equivalent amount to the assets received (the primary exception being onerous contracts, which are not considered here). Thus, if advance receipts give rise to “performance obligations”, the argument in (c) above for recognition of an equivalent liability would be justified.

However, these Board members think that for many, if not all, taxes, advance receipts do not give rise to performance obligations as described in the Proposed Standard. As paragraph 64 of the Proposed Standard notes, goods and services are not provided directly in exchange as consideration for the payment of taxes. Furthermore, many taxes are not levied for specific purposes.

Advance receipts of taxes may give rise to return obligations. Nevertheless, as discussed in the comments on Question (i), some of these Board members think return obligations should not be measured at an amount equivalent to the assets received, except by coincidence. Therefore, those Board members conclude that in respect of taxes, it is not valid to argue that an *equivalent* liability for advance receipts should be recognised because such advance receipts are not fundamentally different from advance receipts in exchange transactions.

Whether performance obligations arise in respect of advance receipts of *transfers* depends on the conclusions reached about whether non-exchange transactions can give rise to performance obligations. This is discussed in the comments on Question (e).

(d) *“In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the entity may need to return part or all of the resources.” (para. BC21)*

Paragraph BC21 of the Basis for Conclusions says “In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the entity may need to return part or all of the resources.” For advance receipts of taxes, such a return could occur in the form of a payment or an offset against amounts receivable for future taxation liabilities. For example, if a taxpayer overestimates its provisional tax liability, it could receive a refund of the overpayment or offset it against other taxation liabilities.

The Board agrees with the quote above from paragraph BC21, and that this gives rise to a return obligation in respect of advance receipts of both taxes and transfers. However, as noted above, some Board members think return obligations should not be measured at an amount equivalent to the assets received, except by coincidence. Therefore, those Board members do not think the existence of a return obligation justifies recognising a liability of equivalent amount to the assets received in advance.

Because some Board members think advance receipts of taxes generally do not give rise to performance obligations, and that return obligations generally should not be measured at an amount equivalent to the assets received, they disagree with the proposal in paragraph 67 of the Proposed Standard that taxation revenue should be recognised only when the taxable event occurs. Instead, those Board members think taxation revenue should be recognised when control is obtained over taxation assets, and the amount of revenue recognised at that time should be reduced by the amount recognised for any corresponding return obligation.

Additional comment about advance receipts of transfers

In respect of advance receipts of transfers, the Proposed Standard says “a liability is recognised until the past event which makes the transfer arrangement binding has occurred, and all other obligations under the agreement are fulfilled” (para. 105). Receiving assets under transfer arrangements may give rise to conditions over the transferred assets, and the related liability is derecognised when the obligations related to those conditions are fulfilled. This is consistent with the proposed principles for conditions on transferred assets.

However, if there are no conditions on transferred assets, the Board thinks it is unclear why a liability would be recognised “until the past event which makes the transfer arrangement binding has occurred” (Proposed Standard, para. 105). Until the transfer arrangement becomes binding, the recipient of the transferred assets would normally have an obligation to return the transferred assets if the arrangement does not become binding. However, under the Proposed Standard’s proposed principles, a return obligation does not, of itself, justify the recognition of a liability. This lack of a coherent principle, and the apparent proposed requirement that liabilities for advance receipts should be measured at an amount equivalent to the related assets rather than as per IPSAS 19, suggest the primary goal of the proposed treatment of advance receipts is to obtain time-based recognition of revenues from transfers. If that is correct, it contradicts the comment in paragraph BC13 that the period to which transfers relate is not a determinant of when the transfers should be recognised as revenues.