IPSAS 48 Summary—Transfer Expenses

This summary provides an overview of IPSAS 48, *Transfer Expenses*

Project Objective: To develop an IPSAS that provides accounting requirements for transfer expenses.

Approved: The International Public Sector Accounting Standards Board® (IPSASB®) approved IPSAS 48, *Transfer Expenses*, in March 2023. It was issued in May 2023.

Project History: The IPSASB initiated the Transfer Expenses project in 2015 as part of a combined project on the accounting for revenue and non-exchange expenses. In February 2020, the IPSASB issued Exposure Draft 72, *Transfer Expenses* (ED 72), which proposed an accounting model based on the Public Sector Performance Obligation Approach (PSPOA).

In developing IPSAS 48, the IPSASB considered constituents' feedback to ED 72 and decided to:

(a) Revise the accounting of transfer expenses to move away from the PSPOA and to focus on whether the transfer transaction results in the recognition of an asset;

(b) Focus on the accounting from the perspective of the transfer provider (the entity); and

(c) Where possible, streamlined the requirements for measurement, as well as presentation and disclosure.

IPSAS 48 is the IPSASB's response to comments received in the ED consultation.

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Project Overview

The purpose of the Transfer Expenses project is to develop a new IPSAS on the accounting of transfer expenses.

A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity, without directly receiving any good, service, or other asset in return.

Why the IPSASB Undertook this Project

The primary objective of most public sector entities is to deliver services to the public. For many governments, the delivery of services to the public through social benefits, collective and individual services, and transfer expenses accounts for a significant portion of their expenditure.

Until recently, there had been little guidance in the IPSASB's literature on how to account for these expenditures. The IPSASB undertook a phased program of work to address these transactions, culminative with IPSAS 42, *Social Benefits*, issued in January 2019, and *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020.

IPSAS 48, *Transfer Expenses*, is the final step of the IPSASB's work program on social benefits, collective and individual services, and transfer expenses. This new standard sets out the accounting requirements for transfer expenses and fills a significant gap in the IPSASB's literature.

Benefits of IPSAS 48

The accounting requirements introduced in IPSAS 48 have the following benefits:

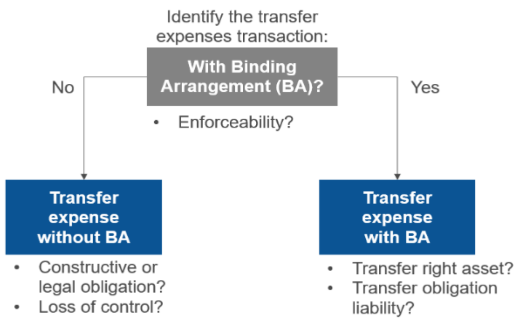
(a) Prior to IPSAS 48, there was no explicit guidance on transfer expenses in the IPSASB's literature. This lack of guidance led to ambiguity and potential inconsistencies in the accounting for transfer expenses, as constituents needed to develop their own accounting policy for these transactions; and

(b) Compared to ED 72, the accounting in IPSAS 48 is driven by whether a transfer transaction results in recognition of an asset. This approach is more intuitive and better aligned with the definition of an asset in the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

Two Accounting Models

IPSAS 48 presents two accounting models based on the existence of a binding arrangement.

IPSAS 48 includes comprehensive guidance for an entity to determine whether their transaction arises from a binding arrangement, and consequently, which accounting model to apply.



Under IPSAS 48, the accounting for transfer expenses is driven by whether the transaction results in an enforceable right to have the transfer recipient satisfy their obligations. Such an enforceable right is recognized as an asset and subsequently expensed as the enforceable right is extinguished.

The identification of whether the transaction arises from a binding arrangement impacts the determination of whether the transaction results in the recognition of an asset, as the rights and obligations from a binding arrangement provides inputs into the assessment of the asset recognition criteria.

The Binding Arrangement Concept

The concept of a 'binding arrangement' is prevalent throughout IPSAS literature and is fundamental for the accounting for transfer expenses.

A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. As such, an entity must have at least an enforceable right and an enforceable obligation

For example, in a two-party binding arrangement:

Component	Party A	Party B
Enforceable Right	✓	✓
Enforceable Obligation	✓	✓

Enforceability

Enforceability underpins the definition of a binding arrangement. An entity uses judgment to consider all relevant factors in their jurisdiction and specific transaction, to assess whether enforceability exists in its transfer expense arrangement. Enforceability can:

- Arise from various mechanisms (i.e., "what"), to hold the parties accountable to fulfilling each of their respective obligations by compelling them to fulfill their obligations or face imposed consequences (i.e., "how"); and
- Be through legal or equivalent means in the public sector. Equivalent means (which include executive authority and cabinet or ministerial directives) capture enforcement outside the judicial system that is similar to the force of law.

Transfer Expenses from Transactions without Binding Arrangements

The accounting model for transfer expenses without binding arrangements requires an entity to consider whether any of its rights or its obligations in the transfer expenses transactions are enforceable, and meet the definition of an asset or liability, respectively.

Core Principles

In a transfer expense transaction without binding arrangements, the entity does not have both an enforceable right and an enforceable obligation, but may have an:

- Unenforceable right, and unenforceable obligation—e.g., a donation where the transfer provider cannot direct how the funds are to be used by the transfer recipient;
- Enforceable right, but unenforceable obligation—e.g., certain education grants where a government directs how the funds are to be distributed, but the educational institution has no rights to demand payment; or
- Unenforceable right, but enforceable obligation—e.g., an obligation to pay a fine or penalty.

An entity determines whether any of its rights in the arrangement meet the definition and recognition criteria of an asset, and whether any of its obligations meet the definition and recognition criteria of a liability.

Recognition

When a transfer expense arises from a transaction without a binding arrangement:

- The entity would need to first consider whether it has a constructive or legal obligation related to the transfer. If so, the entity recognizes an expense and a provision under IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*. The subsequent transfer of resources to the transfer recipient settles the provision; and
- If there is no related constructive or legal obligation, the entity derecognizes the assets to be transferred and recognizes a transfer expense when it ceases to control these resources.

Measurement

In situations where a constructive or legal obligation exists and a provision is recognized, the provision and expense are measured in accordance with IPSAS 19.

When a transfer expense is recognized upon the transfer of resources, the expense is measured at the carrying amount of the transferred assets.

Transfer Expenses from Transactions with Binding Arrangements

The accounting model for transfer expenses with binding arrangements is driven by the enforceable rights and enforceable obligations in the binding arrangement, and whether the entity or the transfer recipient has fulfilled its respective obligations

Recognition

In a transfer expense transaction with binding arrangements, the enforceable right from the binding arrangement meets the definition of an asset in the IPSASB's Conceptual Framework. As a result:

- Upon the transfer of resources, the entity derecognizes the transferred asset and recognizes a transfer right asset; and
- Subsequent to the transfer, the transfer right asset is derecognized and expensed when or as the transfer right is extinguished. This typically occurs when or as the transfer recipient satisfies its obligations in the binding arrangement.

In situations where the transfer recipient satisfies its obligations in the binding arrangement, the binding arrangement imposes an enforceable obligation to the entity. This enforceable obligation results in the recognition of a liability by the entity.

Measurement

When an entity transfers resources as part of a transfer expense transaction arising from a binding arrangement, the resulting transfer right asset is measured at the carrying amount of the transferred asset.

When an entity recognizes a liability for the enforceable obligation to transfer resources, the liability is measured at the carrying amount of the resources which the entity is obligated to transfer.

Some binding arrangements may involve the transfer of variable consideration. Under IPSAS 48, variable consideration is measured using the same requirements as the measurement of provisions in IPSAS 19.

Other Considerations

IPSAS 48 includes implementation guidance and illustrative examples to help entities apply the accounting principles to specific types of transfer expenses that are prevalent in the public sector.

In response to comments from constituents, the requirements for presentation and disclosures, as well as transitional provisions, were streamlined.

Supporting Guidance

IPSAS 48 includes additional guidance to support understanding application of the principles. This includes new implementation guidance and detailed basis for conclusions, as well as a robust set of illustrative examples. In particular, the illustrative examples use general fact patterns to illustrate the application of the accounting principles to transactions that are both relevant and prevalent in the public sector.

Presentation and Disclosure

IPSAS 48 retains the requirements to disclose certain information regarding transfer arrangements and the basis for the recognition of transfer right assets. However, many constituents noted that the remaining presentation and disclosure requirements proposed in ED 72 were overly onerous and that the relevant information related to transfer expenses was already presented or disclosed in the financial statements as part of the information on an entity's programs and activities. As a result, IPSAS 48 leverages the general presentation and disclosures requirements in IPSAS 1 for the presentation and disclosures of transfer expenses and related balances.

Transitional Provisions

Based on constituents' feedback, the IPSASB also simplified the transitional provisions for the application of IPSAS 48. To provide the flexibility to adjust prior-period financial statements, the transitional provisions allow entities to apply IPSAS 48 prospectively or on a retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Effective Date and Project History

The effective date of IPSAS 48 is January 1, 2026.

Effective Date

The effective date of IPSAS 48 is January 1, 2026, with earlier application permitted for entities that apply IPSAS 47, *Revenue*, at or before the date of initial application of this Standard.

The IPSASB selected this effective date because IPSAS 48 leverages certain definitions and principles from IPSAS 47. The IPSASB decided that public sector entities will need sufficient time to apply IPSAS 48, after applying other recently issued pronouncements.

Project History

To learn more about the project history, and to view the consultation documents and responses, please visit:

https://www.ipsasb.org/consultations-projects/transfer-expenses