

SECTION PS 3380 contractual rights

Basis for Conclusions

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PURPOSE AND SCOPE

- .01 This Section:
- (a) defines and establishes disclosure standards on contractual rights; but
 - (b) does not include disclosure standards for specific types of contractual rights; and
 - (c) does not include those contractual rights to exchange one asset for another where revenue does not arise.
- .02 It may be useful to read this Section in conjunction with ASSETS, Section PS 3210, and CONTINGENT ASSETS, Section PS 3320.

DEFINITION

- .03 **Contractual rights** are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.

CHARACTERISTICS OF CONTRACTUAL RIGHTS

- .04 By definition, a contractual right arises out of a contract or agreement that is binding between two or more parties, has clear economic consequences and is enforceable by law.
- .05 Contractual rights may include, but are not limited to, contractual rights to receive payments under a shared cost agreement or contractual rights to receive lease payments.
- .06 Contractual rights are distinct from assets because there has been no past transaction or event giving rise to an asset at the financial statement date. Until a transaction or event occurs under a contract or agreement, an entity only has a contractual right to an economic resource. Once the entity has received an asset, it no longer has a contractual right.
- .07 Derivatives are unlike contractual rights, such as a sale agreement, where an asset does not exist until the good or service that is the object of the contract is provided. Derivatives are accounted for in accordance with FINANCIAL INSTRUMENTS, Section PS 3450.
- .08 Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right. Once the terms of the contract or agreement are met, the contractual right will give rise to an asset and revenue.
- .09 Contractual rights are governed by contract law and are distinct from certain public sector entity rights, such as the right to tax or the right to license. Such rights are derived from legislation based on constitutional authority or delegated constitutional authority.

DISCLOSURE

- .10 Disclosure of a public sector entity's contractual rights is useful because it provides an understanding of the economic resources available in the future to meet the public sector entity's obligations or to finance future operations.
- .11 *Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing.* [APRIL 2017]
- .12 The exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:
- (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and

(b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.

TRANSITIONAL PROVISIONS

- .13 This Section applies to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
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