



<b>Project:</b>	<b>Staff FAQs on Research Grants</b>	<b>Meeting:</b>	AASB September 2019 (M172)
<b>Topic:</b>	<b>Amendment to AASB 15 Illustrative Example 4 and Updated Draft Staff FAQs on Research Grants</b>	<b>Agenda Item:</b>	22.1
		<b>Date of Agenda Paper:</b>	4 September 2019
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Developing FAQs

### Objective of this paper

- 1 The objective of this paper is for the Board members to:
  - consider the proposed amendments to Illustrative Example 4 in the examples accompanying AASB 15 *Revenue from Contracts with Customers*;
  - consider the proposed examples for the staff FAQ on Research Grants; and
  - decide on the next steps and timeline.

### Reason for bringing this paper to the Board

- 2 In May 2019 the AASB staff circulated a draft FAQ on research grants to provide additional guidance on application of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. The draft staff FAQ attracted significant attention among preparers and their auditors.
- 3 Based on the feedback received from stakeholders and suggestions received from some Board members, staff recommend to:
  - amend Illustrative Example 4 attached to AASB 15 to clarify how paragraph 35(a) should be applied; and
  - update the draft staff FAQ with examples built upon existing examples in the initial draft and the Illustrative Examples attached to AASB 15.
- 4 Amendment of Illustrative Example 4 will require the Board's approval, as it is attached to a Standard. Member views of the updated draft staff FAQ will also be helpful.

### ATTACHMENTS

- 22.2 Revised Illustrative Example 4 in the examples accompanying AASB 15

### 22.3 Revised Draft Staff FAQs – Research Grant Examples

### 22.4 Revised staff FAQs – NFP Revenue and Income Flowchart – Chart 3 – Research Findings

### 22.5 Letter from the Association of Australian Medical Research Institutes (AAMRI) on application of AASB 15 and AASB 1058 to Research Grants (dated 12-8-19)

#### Structure

- 5 This Staff Paper is set out as follows:
  - Background (paragraphs 6-12)
  - Amendments to guidance (paragraphs 13-16)
  - Next steps and timeline (paragraph 17-20)
  - Appendix – Developing the Staff FAQs

#### Background

- 6 Accounting Standards AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* are effective for not-for-profit (NFP) entities for annual periods beginning on or after 1 January 2019.
- 7 In developing AASB 1058, the Board acknowledged that diverse practice exists in accounting for research activities that are undertaken on behalf of a grantor but benefiting the community at large. The Board decided not to extend capital grant accounting (recognition of a liability despite the absence of performance obligations) under AASB 1058 to research grant arrangements. Instead, the Board decided to provide illustrative examples to help users with application. Examples were included with AASB 1058, and AASB 15 was amended by the addition of Appendix F, with further research grant examples.
- 8 In 2018 staff issued FAQs with flowcharts to provide guidance on how to account for research grants under AASB 15. The staff are also developing further, detailed FAQs on research grants. The background to developing these FAQs is set out in the appendix to this paper.
- 9 In July 2019, staff had an informal discussion with some Board members who are interested in this matter to discuss the issues. Staff received the following suggestions from these Board members:
  - Example 4B in the Illustrative Examples to AASB 15 be updated to clarify how AASB 15.35(a) should be applied – that is, it is not necessary to refer to paragraph B4 and its re-performance discussion if it is clear that the donor does or does not simultaneously receive and consume the benefits of the research services as they are performed; and
  - the draft staff FAQ be updated with two examples built on the current draft example and the Illustrative Examples attached to AASB 15, reducing the amount of detail in the examples.
- 10 The draft staff FAQs have been rewritten to reflect those suggestions, and are attached as agenda paper 22.3.
- 11 Staff believe that the staff FAQ would provide useful guidance and help clarify that conducting research activities without any particular transfer to the donor or third party beneficiaries (eg IP, licence of IP and/or research findings) is not a performance obligation.

- 12 Staff will consult with stakeholders on the revised FAQs. For example, staff will discuss with the Association of Australian Medical Research Institutes the views expressed in their letter dated 12-8-19 (attached as agenda paper 22.5). In addition, the views of Board members on the draft FAQs would be helpful.

### **Amendments to guidance**

- 13 Staff consider that amendments to Illustrative Examples 4A and 4B accompanying AASB 15 are necessary because the question under AASB 15 paragraph B4 of whether another entity would have to re-perform the research has been over-emphasised in the research grant analyses in the examples. Staff believe that the amendments would provide sufficient explanation of why AASB 15 paragraph 35(a) is not satisfied and clarify that it is not necessary to refer to AASB 15 paragraph B4 and its re-performance discussion if it is clear that the donor does or does not simultaneously receive and consume the benefits of the research services as they are performed.
- 14 Staff also consider that flowchart 3 (research findings) in the present staff FAQs should be revised, to separate the question of simultaneous receipt and consumption of research services from the re-performance assessment.
- 15 Staff believe that staff FAQs would provide much-needed guidance on how to apply AASB 15, and should be finalised. Staff consider that aligning the draft staff FAQ examples with AASB 15 Illustrative Examples will make comparison of fact patterns easier, thus helping users to better understand the implications of different fact patterns for the accounting outcome.
- 16 The revised staff FAQs include two scenarios and each scenario has two variations:
- Scenario 1A illustrates the accounting under AASB 1058 for a cash grant received upon signing the contract where the agreement does not have a sufficiently specific performance obligation;
  - Scenario 1B illustrates the accounting under AASB 1058 for a grant with installment payments reflecting agreed research milestones where the agreement does not have a sufficiently specific performance obligation;
  - Scenario 2A illustrates the accounting under AASB 15 for a cash grant where the agreement requires the researcher to publish research findings on an annual basis; and
  - Scenario 2B illustrates the accounting under AASB 15 for a cash grant where the researcher intends to seek patent protection with a view to commercialising the research, and as a result, will not publish the research findings until after the end of the contract term (depending on what the patent process might be).

### ***Staff recommendations***

- 17 Staff recommend amendments to Illustrative Examples 4A and 4B as set out in agenda paper 22.2, and consequential amendments to Flowchart 3 in the Staff FAQs (see agenda paper 22.4). Staff have also revised the examples in the draft staff FAQs (see agenda paper 22.3).

### Questions to the Board

- Q1** Does the Board agree with the staff recommendation to amend Illustrative Examples 4A and 4B attached to AASB 15?
- Q2** If so, does the Board agree with the suggested amendments?
- Q3** Do Board members have any comments on the proposed revised Flowchart 3?
- Q4** Do Board members have any comments on the revised draft staff FAQs?

### Next steps and timeline

- 18 There are several ways in which the Illustrative Examples 4A and 4B accompanying AASB 15 can be amended by the Board. As the examples are not part of the mandatory requirements of the Standard, the Board would be able to amend them directly. However, the Board's practice is to amend materials attached to Standards through amending Standards, so that the amendments can be readily identified by users of the Standards. (As an exception to the general approach, Bases for Conclusions, which are rarely amended by the Board, are amended directly.) The making of amending Standards is normally preceded by a consultative document of some kind, whether an exposure draft, a fatal-flaw review draft, or some other document.

### Staff recommendations

- 19 Staff recommend that the Board adopt a fatal-flaw review draft process, as the proposed amendments to the examples are very limited in their scope. The consultation period can be relatively short for a fatal-flaw review draft, compared with an exposure draft. Staff recommend a four-week consultation period.
- 20 The timeline and next steps are included in the table below:

Date/Meeting	Task
September Board Meeting	The Board to confirm amendments to Illustrative Example 4 attached to AASB 15 <i>Revenue from Contracts with Customers</i> .  If the amended Illustrative Example is not supported, staff will revise the amendments on Board recommendations and obtain approval out of session from a sub-committee of Board members, subject to any other Board decisions.
19-24 September	Staff to address Board's comments on the amended draft Illustrative Example and the draft staff FAQ, preparing a consultation document as required.
25 September	Send the ballot draft of the proposed amendments to the Example to a Board sub-committee for voting out of session.
7 October	Voting closes on the ballot draft of the proposed amended Illustrative Example.

Date/Meeting	Task
15 October	Issue the proposed amended Illustrative Example for comment and circulate the revised draft staff FAQ to the working group for further consultation.
12 November	Comment period on proposed amended Illustrative Example closes.
18 November	Send collation of responses and ballot draft of amending Standard to Board for voting out of session.
28 November	Voting closes on ballot draft of amending Standard.
29 November	Issue amending standard and Staff FAQs.

**Questions to the Board**

**Q5** Do Board members support a consultation process in amending the Illustrative Example?

**Q6** Does the Board agree with the timeline?

## Appendix

### Developing the Staff FAQs

- 1 The university sector in general has taken the position to account for their government funded research grant agreements as AASB 15 customer contracts with a single service performance obligation (being the conduct of research activities) and revenue recognised over time.
- 2 In November 2018, some accounting firms raised concerns over the accounting treatment adopted by their university clients for government funded research projects. To address their concern, these accounting firms formed a working group and the AASB Staff were invited to their discussions. Staff were provided with specific fact patterns, based on which staff drafted an initial version of staff FAQs on Research Grants.
- 3 The draft staff FAQ would supplement the 2018 FAQs flowcharts and provide specific fact patterns with detailed explanation on how to apply AASB 15 and AASB 1058 in that case. The draft staff FAQ emphasised that a research grant agreement must be enforceable and have sufficiently specific promises to transfer goods or services to (or on behalf of) the donor in order for it to be within the scope of AASB 15.
- 4 In May 2019, as part of the consultation process, staff sent out the draft staff FAQ to a wider group consisting mainly of the auditors to the university sector. This group then circulated the draft staff FAQ to university clients. The draft staff FAQ attracted significant attention among preparers and their auditors.
- 5 Twenty of the 23 respondents did not support the proposed accounting approach in the draft staff FAQ<sup>1</sup>. Their views are that conducting the research activities is the transfer of a benefit in a variety of forms (not limited to the publication of research findings) to the grantor and the research community as a whole. Sufficient details of research activities are specified in contract documents. Revenue should be recognised over time on the basis of simultaneous consumption of the service under paragraphs 35(a) and B4 of AASB 15, particularly because in the event of a transfer of the project to another research entity, all the necessary information would have to be made available to the new administering organisation, so that reperformance of the research to date would not be required.
- 6 Staff held follow-up meetings in June 2019 with the University of Sydney, Monash University and the University of Melbourne to discuss their feedback.
- 7 In June 2019, staff held a teleconference with an IASB staff member to discuss the technical application of IFRS 15/AASB 15 to NFP government funded research grants.

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1 Eight of the 23 respondents provided essentially identical submissions.