



Project:	Post-Implementation Reviews	Meeting:	M200
Topic:	Income of Not-For-Profit Entities – Termination for convenience clauses	Agenda Item:	7.4
		Date of the Agenda Paper:	13 November 2023
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		Decision-Making:	Low
		Project Status:	Initial consideration of stakeholder feedback

Objective of this paper

- 1 The objective of this Staff Paper is for the Board to:
 - (a) **consider** the feedback received on Topic 6: Termination for convenience (TFC) clauses included in ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50); and
 - (b) **discuss** the feedback, staff analysis and preliminary views in relation to topic 6. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions for further analysis. Following the discussion, staff will develop recommendations and ask the Board to decide on possible next steps¹ at a future meeting.

This paper is carried over from the AASB September 2023 meeting agenda item 8.2.3 amended for editorial references without any substantial modifications and to include relevant feedback from KPMG's comment letter.

Structure

- 2 This paper is structured as follows:
 - (a) Background (paragraphs 3 to 10)
 - (b) Analysis of respondents' feedback (paragraphs 11 to 27)
 - (c) What the AASB has done so far (paragraphs 28 to 41)

1 See Agenda Paper 7.1 *Cover Memo* Appendix A: Post-implementation review decision-making process and Appendix B: Possible responses to PIRs.

- (d) Staff analysis and preliminary views (paragraphs 42 to 51)

Background

- 3 As summarised in [Agenda Paper 3.2.1](#) (October 2023), when developing ITC 50, stakeholder feedback indicated that differences exist in practice as to whether a liability for unspent funds should be recognised where a TFC clause exists in a grant agreement.
- 4 The two views existing in practice are that, where an agreement is within the scope of AASB 1058 *Income of Not-for-Profit Entities*,² a financial liability should be recognised at the time:
- (a) View (a): for unspent funds when the grant is provided, with income recognised as the funds are spent; or
 - (b) View (b): once the clause has been exercised and there has been a request for repayment, because TFC clauses are inserted only for specific purposes (e.g. a change in government). Under this approach, income is recognised on receipt of the grant, subject to the recognition of other elements per paragraph 9 of AASB 1058.

View (a)

- 5 Applying the requirements of AASB 132 *Financial Instruments: Presentation* paragraph 19, view (a) is primarily based on the fact that the receiving entity does not have an unconditional right to avoid delivering cash to settle a contractual obligation in the instance where the agreement is terminated by the grantor exercising the TFC clause and demanding repayment of unspent funds. Therefore, the total amount of funding (or the amount of funding provided at inception) should be treated as a financial liability at inception by the recipient entity.

View (b)

- 6 This view is primarily based on the fact that TFC clauses are common in funding agreements with a government and are protective in nature to provide flexibility to the government where required. Therefore, accounting for these clauses should be based on the substance of the arrangement, as required by paragraph 15 of AASB 132.³ According to this view, the substance of most of the funding arrangements is non-financial (i.e. requiring the recipient entity to fulfil obligations under the funding arrangements rather than requiring them to repay the funds granted). Further, there is no obligation on the part of the recipient entity to repay any funds, or a right for the government (or other grantor) to recover any funds until the grantor serves a written notice on the recipient. Also, until the grantor requests repayment, the recipient entity will not know what amounts must be repaid to the grantor.
- 7 In addition, proponents of this view believe that there is a recognition and measurement uncertainty at contract inception because the amount that may be ultimately repaid is affected by various factors such as the timing of the notice, progress of the project, possible compensation and re-scoping of the project. Therefore, the measurement uncertainty fails the reliable measurement criterion for

2 Staff note that grant agreements that are within the scope of AASB 15 *Revenue from Contracts with Customers* may also include TFC clauses. However, the issue of TFC clauses was raised by stakeholders in relation to agreements within the scope of AASB 1058 and therefore, in preparing ITC 50, staff only considered the accounting for TFC clauses where the agreement is within the scope of AASB 1058. Notwithstanding this, staff note that some comment letter respondents have referred to the requirements of AASB 15 in their responses. Staff understand that where an agreement is within the scope of AASB 15, an entity recognises a liability for outstanding performance obligations and income as it transfers goods/services to the customer, and therefore in practice, if a TFC clause was exercised, there may be no significant difference in the accounting in most cases.

3 This states, "The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument".

recognising a liability in paragraph 83 of the [Framework for the Preparation and Presentation of Financial Statements](#) (Conceptual Framework), which currently applies to NFP entities.

8 ITC 50 asked the following questions in relation to TFC clauses:

Questions for respondents

Regarding accounting for termination for convenience clauses:

17. do you support view (a) or view (b) regarding recognising a liability in relation to unspent funds? Please explain your rationale, including references to Australian Accounting Standards. Examples to illustrate your responses are also most helpful;

18. do you have any other comments? If so, please provide your views, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

9 Following the issue of the ITC, during the outreach phase of the PIR, staff actively engaged with stakeholders to seek feedback on this topic.⁴ In addition to formal comment letters being submitted, stakeholders could also provide feedback on this topic via a survey and discussion during the various roundtable events held by staff.⁵ Stakeholders were also invited to discuss the topic further during one-on-one meetings with staff where they requested this.

10 This Staff Paper is part of the 'feedback and next steps' phase of the PIR process. Appendix A and B of Agenda Paper 7.1 sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required.

⁴ See Agenda Paper [3.2.0 Cover Memo: Income of Not-for-Profit Entities](#) (October 2023) for more details.

⁵ Comment letters can be accessed from the [AASB website](#). Survey responses were presented to the Board at the October 2023 meeting: [Agenda paper 3.2.5 Survey Responses](#).

Analysis of respondents' feedback

Do you support view (a) or view (b) regarding recognising a liability in relation to unspent funds? Please explain your rationale.

- 11 The feedback summarised in paragraphs 12 to 21 aligns with previous stakeholder feedback indicating that differences exist in practice in applying view (a) and view (b).
- 12 Nine comment letter respondents and eleven survey respondents provided feedback on the TFC clause topic.⁶

View (a) – a financial liability is recognised on receipt and income is recognised as funds are spent	View (b) – a financial liability is recognised when the TFC clause is exercised and there is a request for repayment
13 Five comment letter respondents and seven survey respondents supported this view.	16 Three comment letter respondents and four survey respondents supported this view.
<p>Support for this view</p> <p>14 The following summarises comments provided by stakeholders to support their view:</p> <p>(a) two respondents (Pitcher Partners (PP) and Deloitte) commented that where an agreement includes a TFC clause which requires repayment of any unspent monies at the time of termination and if the agreement has substance, a liability should be recognised for any unspent funds. Deloitte acknowledged that if a TFC clause does not have substance and is therefore protective, a liability would not be recognised until the request for repayment has been received, and view (b) would apply;</p> <p>(b) BDO does not consider it appropriate for for-profit (FP)⁷ and not-for-profit (NFP) entities to treat these clauses differently for accounting purposes. BDO also commented that they do not agree with view (b)'s justification that the clause should be accounted for in accordance with the substance of the arrangement as outlined in paragraph 15 of AASB 132. This is</p>	<p>Support for this view</p> <p>17 The following summarises comments provided by stakeholders to support their view:</p> <p>(a) ACAG, HoTARAC, RSM and two survey respondents consider TFC clauses to be protective in nature. As noted in paragraph 14(a), where a TFC clause is considered protective, Deloitte support view (b). Two respondents (most HoTARAC and ACAG jurisdictions) suggested that this is because TFC clauses are rarely exercised, with one respondent outlining the requirements of paragraph 15 of AASB 132 to look at the substance of the arrangement. From their experience, TFC clauses provide flexibility to the government, where required, and are rarely exercised by the government;</p>

⁶ In total, 22 respondents provided feedback via the survey. As none of the questions in the survey were compulsory, in addition to those who answered the question, two stakeholders selected that they did not have a view and nine skipped the question.

⁷ Staff note that paragraph 32 of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* requires that a grant that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant.

View (a) – a financial liability is recognised on receipt and income is recognised as funds are spent	View (b) – a financial liability is recognised when the TFC clause is exercised and there is a request for repayment
<p>because paragraph 15 also refers to the instrument being classified in accordance with the definition of a financial liability, and where there is a TFC clause, the entity cannot avoid paying cash if the grantor terminates the grant. BDO have a number of clients with grantors that have chosen in practice to terminate for convenience;</p> <p>(c) KPMG commented the scope of AASB 132 does not distinguish between contractual elements that could be considered ‘protective’ or ‘substantive’, as is the case with AASB 10 <i>Consolidated Financial Statements</i>.⁸ Therefore, applying such an analogy in their view would not be appropriate.</p> <p>(d) one HoTARAC jurisdiction (minority) observes that recognising a liability for unspent funds is consistent with the reciprocal definition of assets as defined in paragraph 49(a) of the Conceptual Framework, which requires a resource to be ‘controlled’ by the entity. Under paragraphs 3.1.1 and 5.1.1 of AASB 9 Financial Instruments, the recognition of financial liabilities is not subject to a sliding probability;</p> <p>(e) while one survey respondent’s preferred view is view (b), their current application is view (a) because they see it as complying with the requirements of AASB 1058. However, it does not seem to reflect the substance of the arrangement, because these are generally last resort clauses in the contract, that are not commonly enacted. They considered the recognition of a liability to be consistent with the requirements of AASB 1058, as it would meet the definition of a financial liability, given there is a contractual obligation to deliver cash that the entity cannot avoid since the conditions to be entitled to it are not met; and</p> <p>(f) one survey respondent believed that the liability should be recognised for unspent funds rather than waiting until the TFC clause is exercised. The</p>	<p>(b) one survey respondent commented that TFC clauses, while common in contracts, are not commonly exercised. There is not often a realistic expectation that the event will occur;</p> <p>(c) one survey respondent commented that it would be onerous to initially treat these as a liability and recognise revenue as services are delivered;</p> <p>(d) two respondents (most HoTARAC and ACAG jurisdictions) further commented that:</p> <p>(i) until the TFC clause is exercised, there is arguably no financial liability⁹ and no present obligation exists to deliver cash for the entity arising from past events per paragraph 49(b) of the Conceptual Framework;</p> <p>(ii) funding between governments or governments and agencies is often subject to customary practice where surplus funds are either not returned or rolled over as seed funding to a new agreement (i.e. in these circumstances, repayment is rarely requested using the TFC clause and funds are used for other purposes); and</p> <p>(iii) with rarity being key to repayment and income being scoped out of AASB 15 <i>Revenue from Contracts with Customers</i> on account of lack of sufficient specificity, estimating a financial liability in relation to AASB 1058 treatments engenders additional preparation and audit effort that does not add value and may mislead users of financial statements.</p>

8 AASB 10 paragraph B9: “For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered.”

9 Paragraphs 11 and 19 of AASB 132.

View (a) – a financial liability is recognised on receipt and income is recognised as funds are spent	View (b) – a financial liability is recognised when the TFC clause is exercised and there is a request for repayment
<p>main reason is that the funds that the entity received cannot be recognised as income because no services or goods have been provided yet.</p> <p>Why this view is not supported</p> <p>15 One respondent (ACAG) commented that view (a) is not supported because:</p> <p>(a) this view could be argued for any enforceable grant which requires spending the money on eligible activities or repaying any unspent amount – which ACAG do not believe was the intention of the AASB; and</p> <p>(b) TFC clauses can allow the grantor to request the repayment but not specifically require it (i.e. there is a TFC clause in an agreement but no clause that requires repayment if the TFC clause is exercised).</p>	<p>(e) one respondent (RSM) further commented that such clauses are generally protective in nature and they should not be used to justify the recognition of a financial liability. They were guided by paragraph B14 of AASB 1058¹⁰ setting out the requirements in respect of refund obligations which can be avoided. They consider that entities can usually avoid the exercise of TFC clauses by complying with both the strict terms and the funder’s overall objectives for the grant.</p> <p>Why this view is not supported</p> <p>18 BDO made relevant comments included in paragraph 14(b).</p>

10 This states that “an entity typically has the ability, through its own actions, to avoid the circumstances that would give rise to a breach of conditions or requirements in an agreement necessitating a return of funds received. In such cases, liabilities recognised in accordance with other Standards do not include refund obligations that apply in the event of a breach, unless the breach has occurred or is expected to occur. For example, a grant agreement may require the funds provided to an entity to be spent only in a particular period, failing which repayment to the grantor will be required. As the entity has the discretion whether to spend funds received in advance of the specified period, a refund liability is not recognised unless the entity breaches the condition or a breach is expected.”

Other comments

- 19 Two respondents (RSM and BDO) observed that TFC clauses are sometimes being used to delay the recognition of revenue, with entities recognising a liability for unspent funds. In answering ITC 50 question 1,¹¹ ACAG also commented that the entities that want 'matching' in their statutory financial statements, where a grant is not sufficiently specific, will use the TFC clause to achieve this outcome. BDO elaborated that if an alternative income recognition model based on approach (c) in Question 10 of ITC 50 is adopted,¹² entities may default to a revenue deferral model. BDO suggested this may not provide the correct treatment, though, as the existence of a TFC clause will still require recognition of a financial liability until funds are spent.

Differences in application

- 20 Two respondents (PwC and an academic from Swinburne University of Technology) did not express which view they support but provided the following comments:
- (a) PwC commented that while TFC clauses may be similar or identical across agreements, they see diversity in the judgements on whether such clauses create a financial liability. These judgements have a direct impact on when income is recognised. The issue is most relevant to entities that apply AASB 1058 because:
 - (i) if the arrangement is in scope of AASB 15, entities generally refer to the guidance for refund liabilities in AASB 15 paragraph 55 and to AASB 9; and
 - (ii) private sector entities account for grants under AASB 120 and recognise a liability for repayment of grants per AASB 120 paragraph 32.
 - (b) An academic from Swinburne University of Technology observed that in the FY 2021 financial statements they reviewed, two of the 40 universities disclosed an accounting policy suggesting that they applied view (a).¹³ The other 38 universities did not make any TFC clause disclosures.
- 21 The comments made by attendees at the virtual outreach sessions and one-on-one meetings were consistent with the comments in paragraphs 13 to 20, including:
- (a) demonstrating the diversity in accounting for TFC clauses applying both views;
 - (b) concerns that entities may be applying view (a) to reach a particular outcome;
 - (c) that TFC clauses are widespread in all local, state and Commonwealth governments, with both views being applied; and
 - (d) the exercise of TFC clauses is often rare.¹⁴

11 "Regarding the term sufficiently specific in AASB 15 Appendix F, do you have any comments about: 1. the application of the term in practice?"

12 This suggested AASB 120 as an alternative revenue recognition model which applies to FP entities. This would require an NFP entity to initially recognise a liability and recognise revenue on a systematic basis over the periods in which the entity recognises as expenses the related costs for which a grant is intended to compensate.

13 "For other research grants, those that do not have sufficiently specific performance obligations, income is recognised immediately when Group has the contractual right to receive the grant as there are no identified sufficiently specific performance obligations. **Where a refund obligation or termination for convenience clause exists revenue will be recognised to the extent of expenditure incurred.**" Charles Darwin University. (emphasis added)

"[re] Education Research, ARC & NHMRC, Donations and Bequests: the Group **recognises a refund liability where the contract contains a termination for convenience clause.** As the customer can terminate the agreement without cause and require the immediate repayment of any unspent or uncommitted funding, the Group has no practical ability to avoid the grantor or customer exercising the clause. This refund liability is payable on demand should the agreement be terminated." University of Melbourne. (emphasis added)

14 Refer to Agenda Paper 3.2.6 *ITC 50 virtual meeting notes* [in supplementary folder for the Board only] (October 2023) for more details.

Do you have any other comments?

Make requirements clear in the standard and/or guidance

- 22 Four respondents (HoTARAC, PP, PwC and ACAG) suggested additional guidance for TFC clauses is warranted to clarify the accounting and reduce differences in application. For example, contrasting protective and substantive clauses and disclosure guidance where TFC clauses may trigger a financial liability.
- 23 Three respondents (PwC, ACAG and KPMG) made comments in relation to the [November 2020 Staff Paper](#), which discusses the accounting for TFC clauses:
- (a) PwC suggested that if the AASB desires to improve consistency in application, the AASB might consider incorporating some of the analysis in the Staff Paper into the staff FAQs as it provides a good basis for assessing the impact of TFC clauses and raises awareness of the need to consider them. If an FAQ were added, the AASB might further consider reminding preparers of the need to disclose significant judgements made in the context of the impact of TFC clauses on the timing of income recognition per paragraph 122 of AASB 101 *Presentation of Financial Statements*;
 - (b) ACAG commented that the majority of jurisdictions believe there are additional issues that should be considered when determining the approach for TFC clauses that do not appear to have been considered in the Staff Paper:¹⁵
 - (i) the underlying issue of the timing of the obligation;
 - (ii) the implications of accounting for the TFC clause financial asset held by the grantor;
 - (iii) implications of recognising a TFC clause as a financial liability on revenue recognition; and
 - (iv) the implications for other grant agreements that have a contractual obligation to pay cash;
 - (c) ACAG also noted the IFRS Interpretations Committee (IC) Agenda Decisions discussed in the Staff Paper and other technical discussions on whether TFC clauses give rise to a financial liability. Most ACAG jurisdictions expressed concerns that some IFRS IC Agenda Decisions may have been taken out of context; and
 - (d) KPMG concurred with the staff views that the TFC issue is relevant to both NFP and FP entities applying AASB 9. Accordingly, they thought this matter is best referred to the IASB for its consideration.
- 24 The comments made by attendees at the virtual outreach sessions and one-on-one meetings were consistent with those in paragraphs 22 to 23. However, it is noted that a detailed discussion of how to make improvements in this area did not occur.¹⁶

¹⁵ See [submission 7](#) for more details.

¹⁶ Refer to Agenda Paper 3.2.6 *ITC 50 virtual meeting notes* for more details.

Subsequent accounting

- 25 One respondent (PP) commented that the guidance should also address the subsequent accounting treatment under view (a), as the funds are spent, the liability is reduced and including clarification of the classification of the resulting profit or loss item.
- 26 This is similar to ACAG's point in paragraph 23(b)(iii). ACAG commented that recognising a TFC clause as a financial liability means that revenue will not be subsequently recognised as the grant activities are undertaken. That is because financial instruments are excluded from the scope of AASB 15 and accounted for under AASB 9.¹⁷ Instead, as activities are undertaken, there would be a gain recognised from the reduction in the financial liability (equal to the amount repayable under the TFC clause). Similarly, under AASB 1058, there would be no income from the grant but a gain from a reduction in the financial liability.¹⁸
- 27 KPMG commented that where the TFC clause is recognised as a financial liability in accordance with AASB 132 and the terms of the clause are such that only unspent funds are to be returned, the liability would be progressively derecognised as funds are spent. This is because the grantor's right to recall (and the recipient's obligation to return the funds) is extinguished over time as described in AASB 9 paragraph 3.3.1.¹⁹

What the AASB has done so far

November 2020

- 28 As mentioned in paragraph 23, the Board discussed the accounting for TFC clauses at its November 2020 meeting (M178). The Board noted the staff analysis of the requirements of the Australian Accounting Standards (AAS) that may be relevant when assessing the effect of TFC clauses (including AASB 15, AASB 1058, AASB 9, AASB 132 and AASB 13 *Fair Value Measurement*).
- 29 Staff concluded in paragraph 37 of the [November 2020 Staff Paper](#) that the requirements of the AAS and available guidance provide an adequate basis to enable an entity to account for TFC clauses and to address the alternative views. The majority of the Board also believed that the standards provided sufficient guidance on this issue.
- 30 The Board agreed that, in accordance with the *AASB Due Process Framework for Setting Standards*, the issue would need to be referred to the IFRS IC if authoritative guidance is required to address diversity in practice, since the issue is relevant to both FP and NFP entities. The Board directed staff to further discuss with and assist the stakeholders raising the issue if the stakeholders wish to submit a request to the IFRS IC.²⁰ Staff offered assistance to the stakeholders, however staff are not aware of any submission made to the IFRS IC in this respect.

17 AASB 15 paragraph 5(c).

18 AASB 1058 paragraph 9(d).

19 AASB 9 paragraph 3.3.1: "An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires."

20 See [November 2020 Meeting Minutes](#).

June 2021

- 31 Following the November 2020 Staff Paper and in response to further stakeholder feedback, staff conducted targeted outreach to understand the prevalence of issues raised in practice.^{21,22} Staff presented the key issues raised at the [June 2021 \(M181\) meeting](#) and asked the Board to consider whether staff should perform further analysis on the issues, including whether any narrow scope standard-setting may be necessary to clarify the requirements, or whether additional educational materials or guidance is needed to assist stakeholders in implementing the Standards.
- 32 Staff noted they had received feedback on the continued divergence in practice relating to the accounting for TFC clauses.
- 33 At that meeting, the Board decided to add a narrow-scope project to its work program to consider NFP income implementation issues and that the issues to be addressed in the project would be considered further at a future meeting.²³

November 2021

- 34 Following the Board's decision at the June 2021 meeting, staff presented the TFC clauses topic to the Board at its [November 2021 \(M184\) meeting](#) for further consideration.
- 35 Staff did not think any new information had been identified during targeted outreach or in addition to the information considered by the Board at previous meetings and that two views about how to account for TFC clauses continued to exist in practice.
- 36 However, it was noted that if there are scenarios where the grant agreement is outside the scope of AASB 15, and it is either unclear whether the terms of the agreement give rise to a financial liability or such an outcome would not meet the objectives and qualitative characteristics of financial reporting, additional requirements and guidance may be required at an accounting standard level. Such matters would be of the nature to be examined by this PIR, given this may include consideration regarding the operation of AASB 1058 on a "residual" basis.
- 37 Further, some NFP Project Advisory Panel members recommended providing educational material on TFC clauses. Whilst the accounting for such clauses may include considerations of other standards beyond the scope of AASB 15 and pertain to the recognition of 'related amounts' referred to in AASB 1058, educational material outlining considerations to be taken into account when assessing such clauses and contracts that contain them (e.g. interaction of the scope between accounting standards) may improve consistency of application.
- 38 In response to this feedback, the Board decided that additional educational material should be developed.²⁴

August 2022

- 39 The Board also considered TFC clauses at its [August 2022 \(M189\) meeting](#). Notwithstanding that this issue was covered in the [educational webinar](#) (February/March 2022), staff understood that TFC clauses continued to be problematic, and divergence continued to exist. Therefore, staff recommended that the topic be added to the PIR.

21 Staff held discussions with 23 stakeholders (preparers and auditors across NFP public and private sectors) either through individual discussions, via emails or in group sessions.

22 The staff paper summarised feedback from preparers and auditors about the accounting for TFC clauses including the different views occurring in practice. However, the staff paper did not provide additional information about the prevalence of the issue.

23 [June 2021 Meeting Minutes](#).

24 [November 2021 Meeting Minutes](#).

Relevant research

- 40 Staff performed a literature review on the topics to be considered as part of the PIR process.²⁵ The review found a CPA Australia INTHEBLACK article which reported that there is diversity in views when TFC clauses are present,²⁶ and a PP article stating that contracts should be reviewed for TFC clauses as their inclusion can affect the accounting treatment of a contract.²⁷ The PP article noted that while a TFC clause may result in deferral of income, this treatment is not widely accepted and can create uncertainty and confusion.
- 41 Staff have been monitoring if there are any TFC clause-related publications and are not aware of any other recent publications.

Staff analysis and preliminary views

- 42 This section includes staff analysis of the feedback received, preliminary views on whether any action may be required to address the feedback and what may be done to respond to it. Appendix A and B of Agenda Paper 7.1, sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required. Staff plan to formalise the recommendations on the next steps including consideration of the magnitude of the issues identified, likely timeframe of possible actions, and their expected benefits and associated costs and present them to the Board at a future meeting.
- 43 Staff acknowledge there may be merit in accounting for TFC clauses either applying view (a) or view (b) depending upon the specific circumstances,²⁸ and there is frequent diversity in how TFC clauses are being accounted for, which is demonstrated in the feedback included in paragraphs 11 to 21. Where they are considered substantive, they are accounted for applying view (a) and, where protective, they are accounted for applying view (b).
- 44 Staff also consider that while feedback showed diversity in how NFP entities are accounting for TFC clauses, staff did not receive feedback that these differences are of significant concern to entities or that the accounting for these are causing significant costs.
- 45 Staff noted ACAG's comments that recognising a financial liability applying view (a) would represent a significant change in practice because it is very common for government contracts to include TFC clauses that are considered protective. Staff also noted comments that the clauses are in fact exercised in practice in some cases. If changes were made regarding TFC clauses, the costs of implementing the changes would need to be weighed against the benefits. Considering this, staff's preliminary view is that any changes in accounting requirements following this PIR should be carefully considered to avoid any unnecessary implementation costs that outweigh the benefits of any changes.
- 46 Staff also noted the comments that these clauses are akin to the refund clauses, however, staff consider that entities can usually avoid the refunds by delivering the activities required under the agreement, which is not the case for TFC clauses, where the right to recall the unspent funds rests with the grantor unilaterally (for their convenience).
- 47 As outlined in paragraphs 28 to 30, at its November 2020 meeting, the majority of the Board believed that the standards provided sufficient guidance on this issue and decided the issue would need to be

25 See [Agenda Item 9.3 NFP domestic PIRs – academic and non-academic literature reviews](#).

26 See <https://intheblack.cpaaustralia.com.au/accounting/nfp-accounting-revenue-income>

27 See <https://www.pitcher.com.au/insights/ongoing-issues-with-income-recognition-for-nfp-entities/>

28 This is consistent with paragraph 27 of the November 2020 Staff Paper which states 'an entity must consider its particular fact patterns and apply professional judgement'.

referred to the IFRS IC if authoritative guidance is required to address diversity in practice, since the issue is relevant to both FP and NFP entities.

- 48 Staff also note that the IASB has issued the Request for Information (RFI) as part of the IFRS 15 PIR and it has been issued by the AASB as [ITC 53 Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#). The Australian comment period closed on 8 September 2023 with all comments to be received by the IASB by 27 October 2023. The RFI is seeking information on applying IFRS 15 with other IFRS Accounting Standards (RFI Question 9) and asks for feedback on accounting for the liabilities arising from IFRS 15 including those that could meet the definition of a financial liability in IAS 32 *Financial Instruments: Presentation*. Staff monitored the feedback received as part of the IFRS 15 PIR and considered if it was relevant in further informing how to address the feedback arising from ITC 50. Staff did not receive feedback as part of the IFRS 15 PIR outreach that was relevant to this particular issue (however staff noted the interaction between the scope of IFRS 15 and IAS 132/IFRS 9 *Financial Instruments* was mentioned as an issue by stakeholders). Staff will monitor the comment letter feedback received by the IASB to see whether any feedback is relevant to this topic.
- 49 Staff preliminary view is that there may still be merit in referring this matter to the IFRS IC or discussing the matter with the IASB further to seek assistance and guidance on the accounting for TFC clauses under the IFRS. However, the feedback on this topic indicates that the issue of accounting for TFC clauses is most prevalent where funding is being accounted for applying AASB 1058 and not AASB 15. Therefore, staff consider that this may be a matter relating to the interaction of the scope between AASB 1058, AASB 9/AASB 132 (and potentially AASB 15 Appendix F) and the fact that AASB 1058 operates on 'residual' basis.
- 50 Whilst the TFC clause issue appears to be narrow-scope in nature, staff's preliminary views is that there is no need for a fundamental change of the principles of AASB 1058. However, changes (if any) to AASB 1058 (for example to address feedback received for Topic 3)²⁹ and AASB 15 Appendix F following this PIR³⁰ may result in a change to how the funding subject to TFC clauses is accounted for applying AASB 1058 (i.e. entities may be applying AASB 15 instead of AASB 1058 or AASB 1058 may introduce different or additional requirements for the activities to be performed under the grant agreements), reducing the need for consideration of whether TFC clauses should result in the recognition of a financial liability.
- 51 Staff note that when preparing this paper, the educational webinar (see paragraph 39) might not be as easily accessible by stakeholders as it could be. This is consistent with stakeholder feedback that guidance is included in multiple places (for example, AASB 15, AASB 1058 and Staff FAQs), and staff consider this could contribute to difficulties applying the income recognition requirements. Depending on the Board's decision whether and how to address the PIR findings, an effort to consolidate educational material and make it more accessible (e.g. via illustrative examples) could be considered.

Question to Board members

Q1: Do Board members have any questions or comments on the feedback, staff analysis or preliminary views for this topic?

29 Agenda Paper [3.2.2 Alternative Models](#) (October 2023).

30 Agenda Paper 7.2 *PIR Income of Not-For-Profit Entities – Sufficiently specific criterion* of this meeting.