



Project:	Income of NFP Entities	Meeting	AASB August 2016 (M153)
Topic:	Due Process	Agenda Item:	3.11
Contact(s):	Clark Anstis canstis@aab.gov.au (03) 9617 7616 Kala Kandiah kkandiah@aab.gov.au (03) 9617 7626	Project Priority:	High
		Decision-Making:	High
		Project Status:	Redeliberations

Introduction and objective of this paper

- 1 The objective of this paper is to review the due process steps taken in developing the draft Standards AASB 10XX *Income of Not-for-Profit Entities* and AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Revenue from Contracts with Customers* and obtain Board member views on whether any further due process is required in addition to that planned.
- 2 This paper includes assessing whether requirements set out in the current draft Standards are sufficiently different from those exposed in Exposure Draft ED 260 *Income of Not-for-Profit Entities* (April 2015) and from constituent views that the draft Standards should be re-exposed through another Exposure Draft.

Summary of staff recommendation

- 3 Staff recommend that the due process followed to date and planned for the future (including any further limited consultation required for the issues listed in paragraph 39) provides an adequate basis for finalising the Standards without re-exposure.

Staff analysis

Due process to date

- 4 The current drafts of AASB 10XX (agenda paper 3.1) and AASB 2016-X (agenda paper 3.2) have been developed on the basis of the proposals set out in Exposure Draft ED 260 *Income of Not-for-Profit Entities*. That ED replaced ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*, which was issued in June 2009, and earlier EDs addressing the income recognition requirements in AASB 1004 *Contributions*.

- 5 This paper addresses the due process adopted by the Board in developing the proposals in ED 260 into final pronouncements. It does not address the earlier due process in preparing ED 260 itself and the previous exposure drafts.
- 6 Since the publication of ED 260 in April 2015, the following principal due process steps have been undertaken:

Due process activity	Action undertaken
Education sessions and roundtable discussions	June 2015 – Melbourne, Sydney, Brisbane, Canberra
Submissions from constituents on ED 260	The 33 comment letters received have been published on the AASB website. The comment letters were discussed by the Board at its September and October 2015 meetings.
Board deliberations held in public	Agenda papers public at the time of meetings. Results of discussions are published in <i>Action Alert</i> after each Board meeting. The Project Summary on the AASB website includes minutes of all Board discussions and agenda paper links.
Other outreach	July 2015 – Hot Topics item published on AASB website August 2015 – webinar November 2015 – Queensland local government seminar May 2016 – Accounting firms forum August 2016 – NFP Forum (CPA Australia) Discussions with a Project Advisory Panel Other presentations and discussions (various)

Further due process planned

- 7 The Board is still making technical decisions in respect of the requirements and/or guidance to be included in AASB 10XX and AASB 2016-X. Accordingly, due process steps engaging with constituents are still required. The planned principal due process steps are set out in the table below.

Due process activity	Action planned
Public fatal-flaw review process	September 2016 – draft Standards (updated for Board decisions) published for fatal-flaw review Targeted outreach
Sweep issues discussed in public meeting	October 2016 – discuss any major issues arising from pre-ballot drafts of the Standards at the Board meeting
Voting on the Standards	November 2016 – Board members vote on ballot drafts
Standards published	November 2016 – publication with <i>AASB Extra</i> on the AASB website

Due process activity	Action planned
Further outreach	Presentations and meetings with constituents post-issue

- 8 Agenda paper 3.8 sets out the communications and project plan. It details the planned communications activities through the remaining process of finalising and issuing the Standards and continuing discussions with constituents.

Adequacy of the due process

- 9 The due process carried out to date and planned for future action represents the usual approach of the Board to developing final Standards. The numerous Exposure Drafts addressing amendment or replacement of the income recognition requirements in AASB 1004 *Contributions* demonstrate the significant changes in approach that the Board has made over time in considering these accounting requirements.
- 10 As the Board has made various decisions changing the requirements and guidance proposed in ED 260 since it was issued, it is necessary to consider whether the due process has been adequate in respect of those decisions. If not, re-exposure of the latest versions of AASB 10XX and AASB 2016-X would be warranted.
- 11 The question of re-exposure should be considered in relation to significant issues that have arisen subsequent to the issue of ED 260. Changes in approach that reflect the feedback received need not be considered since they demonstrate the effectiveness of the due process. The significant issues identified are summarised in the following table and considered in turn in the following paragraphs.

Issue	Approaches in ED and Standard
1 Scope of AASB 10XX	ED 260, para 6 – inflows of resources from donations, grants, taxes and similar transactions/events Draft Standard, para 7 – all inflows of resources that result in the recognition of an asset (with exceptions)
2 Unit of account/ materiality assessment	Assess materiality of items on an individual basis without reassessment at an aggregate or portfolio level: ED 260, para’s 18, 31 – all inflows, including inventories Draft Standard, para 16 – inventories only, and optional (refer agenda paper 3.4)
3 Tax (non-contractual) receivables	Initial measurement as per AASB 9, as if financial assets ED 260, para AG18 – no reference to subsequent measurement Draft Standard, para’s 18, B15 (staff comment) – subsequent measurement also as per AASB 9, as if financial assets?
4 Taxation income	Measurement of taxation income: ED 260, para AG19 – at expected amount Draft Standard, para 24 (staff comment) – residual

Issue	Approaches in ED and Standard
5 Scope of leases covered	ED 260, para D5 – lease provisions include a donation by the lessor or a compulsory transfer to the NFP lessee Draft Standard, para 10 – leases with below-market terms and conditions (and intention to make a gift to lessee?)
6 Lease liabilities/income recognition	ED 260, para D5 – lease asset and liability measured at the same amount, implying income recognised over time Draft Standard, para 25 – liability measured per Leases Standard, so any income recognised immediately
7 ‘Capital’ grants	ED 260, para AG9n – referred to AASB 15 Draft Standard, para 29ff – specific requirements included as exception to general principles; further disclosures suggested in agenda paper 3.6.2
8 Licences	Refer to agenda paper 3.9 for possible approaches ED 260 – not mentioned Draft Standard – not mentioned in current draft
9 Volunteer services disclosure	ED 260, para 35 – income category disclosures Draft Standard, para 41 – refer to agenda paper 3.5 re new disclosure of dependence on volunteer services
10 Restricted assets disclosure	Refer to agenda paper 3.6.2 for possible approaches ED 260 – not mentioned Draft Standard – not mentioned in current draft
11 For-profit government departments	ED 260 – not mentioned Draft Standard, Appx D (see staff note at page 26) – references to such to be deleted from all Standards

Issue 1 – Scope of AASB 10XX

- 12 Whereas ED 260 proposed a narrow scope of inflows of resources from donations, grants, taxes and similar transactions or other similar events, the draft Standard AASB 10XX would apply to all inflows of resources that result in the recognition of an asset. This appears to be a significant expansion of the scope of the requirements, however AASB 10XX (para 7) includes a range of exceptions for items addressed in other Standards as well as additional examples of related items (para 25). The approach in AASB 10XX is consistent with the initial asset measurement exceptions for NFP entities in other Standards, which ED 260 would not have changed.
- 13 *Conclusion* – the due process has been adequate in respect of this issue as it does not indicate a fundamentally different approach between the draft Standard and ED 260.

Issue 2 – Unit of account/ materiality assessment

- 14 ED 260 para 18 proposed that the materiality of an inflow of assets (such as a donation) should be assessed on the basis of an individual transaction without reassessment at an aggregate or portfolio level. It also included para 31, which stated

this principle in relation to donated inventories. Using ‘should’ instead of ‘shall’ makes it unclear whether the principle is a requirement or merely guidance.

- 15 The draft Standard (para 16) includes this materiality assessment approach only in respect of inventories acquired for no cost, and changes the drafting to ‘may assess’. This allows an entity to assess the materiality of donated inventories on either an individual item or aggregate basis. Agenda paper 3.4 addresses this further, including a proposal to encourage disclosure of the nature of and an indication of the extent of unrecognised inventories.
- 16 *Conclusion* – the due process has been adequate in respect of this issue as the changed approach retains the assessment basis in the ED (which was supported by many respondents) as an option, as well as permitting recognition on an aggregate basis. Furthermore, the disclosure proposal is an encouragement rather than a requirement.

Issue 3 – Tax (non-contractual) receivables

- 17 The draft AASB 10XX retains the proposal in ED 260 that tax receivables and other non-contractual receivables would be measured initially as if AASB 9 *Financial Instruments* applied to them. AASB 9 does not apply directly because a financial instrument is defined as a contract. Statutory assets are not derived from contracts.
- 18 Staff comments at para B15 in the draft AASB 10XX raise the issue of whether the Standard should specify that non-contractual receivables are subject to AASB 9 requirements for subsequent measurement, disclosure, etc. In 2010, the Board addressed the impairment of statutory receivables in response to requests from public sector constituents, taking the view that the non-contractual basis meant that AASB 136 *Impairment of Assets* applied rather than AASB 9.
- 19 *Conclusion* – further due process is warranted, if the Board decides to specify the application of the AASB 9 requirements to non-contractual receivables subsequent to initial recognition and measurement. In that event, the issue should be addressed with public sector constituents prior to finalising the Standard.

Issue 4 – Taxation income

- 20 The draft AASB 10XX adopts the general residual approach to measuring taxation income, whereas the ED proposed measurement of taxation income at the amount to which the entity expects to be entitled as a result of the taxable event occurring, with impairment losses recognised separately. The general approach means that subsequent impairments of taxation receivables would be recognised separately from income.
- 21 *Conclusion* – the due process will have been adequate in respect of this issue, with discussion of the issue at the Board meeting.

Issue 5 – Scope of leases covered

- 22 Leases are accounted for under AASB 117 *Leases* (or AASB 16, when applicable), except that AASB 10XX will apply to a subset of leases that give a benefit to the NFP entity. The ED referred to a donation by the lessor or compulsory transfer to identify the subset, whereas the draft AASB 10XX introduces a more general reference to

below-market terms and conditions. Previous Board discussions have considered peppercorn leases, a term that was not used in ED 260.

- 23 As per the staff note at para 10 of the draft AASB 10XX, the Board is asked to consider this further at the meeting. Adopting the reference to below-market terms and conditions without having to identify an intention on the part of the lessor to make a gift or contribution to the lessee would simplify the approach and thus be likely to be supported by constituents.
- 24 *Conclusion* – the due process will have been adequate in respect of this issue, with discussion of the issue at the Board meeting.

Issue 6 – Lease liabilities/ income recognition

- 25 The proposed consequential amendments in ED 260 (see page 42) included adding paragraph Aus20.1 to AASB 117 *Leases* regarding leases with a donation or compulsory transfer component being accounted for under AASB 10XX, with the lease asset and lease liability initially measured at the fair value of the leased property. The consequential amendment to AASB 117 under the draft AASB 10XX (paragraph Aus20.1, see page 23) would specify fair value for the leased asset but measurement of the lease liability as per AASB 117. Thus, the lease asset and liability would normally be measured at different amounts, resulting in immediate income recognition under para 24 of the draft AASB 10XX. This follows the general approach to income recognition in the draft Standard, which was supported generally by respondents.
- 26 A project advisory panel member identified this change as significant, taking the view that the proposed amendment in ED 260 indicated that income would be recognised over the lease term as the lease liability reduced each period by an amount different to any lease payments relating to the principal. This issue is addressed in agenda paper 3.3.2.
- 27 *Conclusion* – further due process may be warranted, depending on the Board’s discussion, such as highlighting the effect of the consequential amendment to AASB 117 in the public fatal-flaw review process.

Issue 7 – ‘Capital’ grants

- 28 ED 260 did not propose specific requirements regarding transfers to enable an entity to acquire or construct a non-financial asset. For example, the footnote to paragraph AG9 referred to applying AASB 15 in the case of a bequest involving performance obligations such as financing the construction of a new building. However, based on discussion at the June 2016 meeting of the Board, the draft Standard includes paragraphs 29-32 to address such transfers explicitly, on the grounds that not all such transfers might be regarded as within the scope of AASB 15.
- 29 Agenda paper 3.6.2 raises possible disclosure requirements regarding these transfers for the Board’s consideration, based on disclosure requirements in AASB 15.
- 30 *Conclusion* – the due process has been adequate in respect of this issue as the accounting requirements (and potential disclosures) are essentially the same as would apply if AASB 15 were relevant to these transfers.

Issue 8 – Licences

- 31 Recent comments from public sector constituents have raised the treatment of licences as an issue. Licences have not been mentioned in either ED 260 or the draft Standard. Agenda paper 3.9 considers the issue of how to address licences, and recommends amending the scope of AASB 10XX to exclude licences. This would permit affected entities to determine an accounting policy under AASB 108, where AASB 15 did not apply. The recommendation also notes that the Board will consider establishing a separate project to address licences through its agenda consultation process.
- 32 *Conclusion* – the due process has been adequate in respect of this issue but further consultation with public sector constituents would be appropriate if specific requirements for licences were to be included in AASB 10XX.

Issue 9 – Volunteer services disclosure

- 33 The approach to accounting for volunteer services is the same in the draft Standard as in the ED. Both also identify recognised volunteer services as an income category that might warrant disclosure in financial statements. However, agenda paper 3.5 proposes that entities should be encouraged to disclose the nature, type and scale of major classes of volunteer services, including those not recognised. This would help to indicate an entity's dependence on volunteer services.
- 34 *Conclusion* – the due process will have been adequate in respect of this issue, as the disclosure proposal is an encouragement rather than a requirement.

Issue 10 – Restricted assets disclosure

- 35 Additional disclosures are addressed in agenda paper 3.6.2. A due process conclusion can be drawn when the proposals have been finalised.

Issue 11 – For-profit government departments

- 36 ED 260 did not address for-profit government departments explicitly. However, the Preface to the ED (page 7) raised the possible withdrawal of various requirements in AASB 1004 *Contributions* that presently apply equally to both not-for-profit and for-profit government departments. The Board has not decided to remove those requirements from AASB 1004. In reviewing what would remain in AASB 1004 (see agenda paper 3.1.1), the question was raised as to whether the two types of government departments still needed to be distinguished.
- 37 Based on information obtained from the Commonwealth, States and Territories, no jurisdiction has any for-profit government departments. As they are unlikely to exist, the draft AASB 10XX includes consequential amendments in Appendix D that would remove all references to for-profit government departments.
- 38 *Conclusion* – the due process has been adequate in respect of this issue, whether the Board agrees to the deletion of the references to for-profit government departments or decides to retain them.

Staff recommendations

- 39 The following issues may require limited additional consultation with constituents within the current timeframe for finalising the Standards, depending on decisions of the Board at the meeting:
- issue 3 – tax (non-contractual) receivables;
 - issue 6 – lease liabilities/ income recognition;
 - issue 8 – licences; and
 - issue 10 – restricted assets disclosure.
- 40 Staff recommend that the due process followed to date and planned for the future (including any further limited consultation required for the issues listed in paragraph 39) provides an adequate basis for finalising the Standards without re-exposure.

Questions for the Board

- Q1 Do Board members agree with the staff recommendation that the due process followed to date and still to be carried out permits finalising the Standards without re-exposure?
- Q2 If not, what further due process should be carried out?