



Project:	Revenue from Licences Issued by NFP Public Sector Entities	Meeting:	M166
Topic:	Updated guidance and examples	Agenda Item:	3.1
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		Decision-Making:	High
		Project Status:	Revised guidance and examples

Objective of this paper

- 1 This paper sets out the Staff's recommended changes to the guidance and examples of ED 283, based on the Staff analysis presented in Agenda Paper 3.0.

Section 1: Working Draft – Extracts of ED 283

- 2 This section provides the Board with marked-up sections of ED 283 with Staff's recommended changes as follows:
 - (a) **Distinguishing a licence from a tax.** These changes are not discussed in Agenda Paper 3.0, but instead Staff thinking is provided in comment boxes against the changes.
 - (b) **Identifying performance obligations.** Staff consider this section required further guidance and clarifications as per the Staff analysis set out in paragraphs 11-18 of Agenda Paper 3.0. This has been provided in mark up from ED 283 for the Board's reference.
 - (c) **Satisfaction of performance obligation.** Staff consider this additional section is required to clarify how the licensor should consider whether it transfers control of the

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licence at a point in time or over time. This is based on the Staff discussion in paragraphs 20-28 in Agenda Paper 3.0.

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Distinguishing a licence from a tax

G1 In determining whether a transaction is a licence subject to this Standard, as distinct from a tax subject to AASB 1058 *Income of Not-for-Profit Entities*¹, the following features are relevant. Meeting at least one of the primary features indicate that an arrangement is a licence. If it is not clear from assessing the primary features whether an arrangement is a licence or a tax, the supplementary features may assist an entity in making the distinction. These features are not an exhaustive list and not all features need to be present for an arrangement to be a licence:

<u>Primary features</u>	<u>Licence</u>	<u>Tax</u>
<u>Is the arrangement discretionary rather than compulsory?</u>	<u>Discretionary</u>	<u>Compulsory</u>
<u>What is the primary purpose?</u>	<u>Non-financial purpose (eg equitable allocation of a public resource)</u>	<u>Generating income for the public sector entity</u>
(a) Does the arrangement give the payer specific permission that must be obtained prior to performing an activity or using or accessing an asset of the payee that would otherwise be unlawful?	Yes	No
(b) Does the arrangement create direct rights to use or access an asset for a payer, or perform an activity, and, depending on the type of arrangement, direct obligations of a payee?	Creates direct rights for a licensee, and could create direct obligations for a licensor	No specific rights for a payer or obligations for a payee
(c) Does the arrangement transfer control of a payee's underlying asset?	No	Not relevant
<u>Supplementary features</u>	<u>Licence</u>	<u>Tax</u>
<u>(d) Is the arrangement discretionary rather than compulsory?</u>	<u>Discretionary</u>	<u>Compulsory</u>
<u>(e) What is the primary purpose?</u>	<u>Non-financial purpose (eg equitable allocation of a public resource)</u>	<u>Generating income for the public sector entity</u>

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Staff have made changes to paragraph G3 and the table of features as set out in mark-up. Staff have made these features as they are of the view that the criteria that are now (a)-(c) are the primary features, whereas the features that are now (d)-(e) are helpful supplementary features, but not key to the assessment. Staff also observed that the supplementary features were the most problematic to the respondents to ED 283. Staff consider that this clarification will help NFP public sector licensor's in their assessment.

G2 A not-for-profit public sector entity may enter into an arrangement with a dual purpose of granting a licence and imposing a tax. Consistent with paragraph F28 of AASB 15, the

¹ AASB 1058 defines taxes as "Economic benefits compulsorily paid or payable to public sector entities in accordance with laws and/or regulations established to provide income to the government. Taxes exclude fines."

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rebuttable presumption is for the not-for-profit public sector entity to allocate the transaction price wholly to the promise to grant a licence.

G3 The presumption is rebutted where

- (a) ~~the transaction price is partially refundable in the event the entity does not grant the licence; or~~
- (b) a similar activity conducted through a different structure is a tax, providing evidence of the composite nature of the arrangement or there is other evidence supporting that there is a tax for activities not specific to that licencing arrangement

G4 Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the grant of the licence (which is generally the refundable component of the transaction price) in accordance with AASB 15. The remainder of the transaction price shall be accounted for in accordance with AASB 1058. Whether the element not related to the grant of the licence is material, and therefore needs to be accounted for separately, shall be assessed in relation to the individual arrangement, without reassessment at an aggregate or portfolio level.

G3G5 For example, where online gaming activities conducted by foreign controlled entities (or other third parties) are taxed at a rate of 10% and the same gaming activities are conducted under a casino licence, this provides evidence that the casino arrangement contains both a licence and a tax, and where material the arrangement should be disaggregated. The tax rate charged to the third party provides evidence of the amount that should be disaggregated as the tax component.

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Identifying performance obligations

G17 Where a not-for-profit public sector licensor issues a non-IP licence that transfers to the licensee either rights over the licensor's non-identified assets or a right to the licensee to perform an activity (that does not involve an asset or assets of the licensor, for example the right to operate a casino), the licensor shall assess goods or services promised in the arrangement and shall identify each performance obligation promised to the licensee in accordance with paragraphs 22-30.~~transfer of the non-IP licence is assessed to determine if there is a single or multiple performance obligations in the arrangement.~~

Identifying the customer

G18 Appendix A defines a customer for the purpose of this Standard. In the context of non-IP licences, the customer is the licensee who contracted with the licensor to be granted the rights associated with the licence.

G19 Any activities that a licensor is required to undertake in the context of a non-IP licence shall not be considered performance obligations unless those promises transfer a good or service to the licensee. For example, where a licensor must undertake an activity to benefit the general public and this does not transfer a good or service to the licensee, this shall not be considered as a performance obligation.

Identifying the goods or services

G20 The good or service being transferred in a non-IP licence issued by a not-for-profit public sector licensor would most commonly be either to provide rights over the licensor's non-identified assets or to provide a right to the licensee to perform an activity. However, an entity

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Staff further considered the comments made to ED 283 that some licences have taxes attached to them that are generic taxes charged to any entity undertaking similar activities, regardless of whether that entity holds a licence or not. Staff considered that in this situation, there was a separately identifiable element that was a tax and could be easily separated out. Noting that this rebuttable presumption was intended to make the accounting simpler for preparers (reducing the burden of trying to split the elements of the transaction), Staff consider that where this easily identifiable generic tax element is present, an entity should be permitted to account for the element as such. Paragraph G7 provides an example of where this might happen.

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shall also assess the arrangement to identify any other goods or services promised to the licensee.

G21 In accordance with paragraph 25, performance obligations do not include activities that licensor must undertake to fulfil a contract unless those activities transfer a good or service additional to the original licence to a licensee.

G18G22 For example, actions performed by the licensor such as protecting the exclusivity of an arrangement, periodically monitoring whether the terms of the arrangement are being met and upholding the integrity of the licence do not transfer a ~~distinct~~ good or service to the licensee that is additional to the original licence. Exclusivity attributes, whether restricting who may perform activities or where such activities may be performed, are considered attributes of the right to perform an activity that have been promised in the context of the arrangement and shall not be considered as separate performance obligations. Activities to check that eligibility is maintained ensure that the licensee is meeting the terms of the agreement. The licensee controls whether they meet the eligibility criteria, and the licensor checking merely confirms they continue to meet the criteria, as they did on day 1. Accordingly such activities do not transfer additional goods or services to the original licence. Activities upholding the integrity of the licence merely confirm whether the contract has been breached, and do not create separate goods or services for the licensee. Examples of actions that are considered features of an arrangement rather than

- (a) — monitoring and ensuring that non-licensed parties are not performing the licensed activities; and
- (b) — checking that licensees remain eligible for the licence.

Satisfaction of performance obligations

G23 A not-for-profit public sector licensor shall apply paragraphs 31-45 to assess the point at time at which the performance obligation of issuing a non-IP licence is satisfied.

G24 When assessing whether a performance obligation is satisfied over time in accordance with paragraph 35, a not-for-profit public sector licensor considers the following:

- (a) in assessing paragraph 35(a), the licensor having a substantive right to change the way that the licensee can perform the activities licenced under the arrangement at any time, is likely to indicate that the licensee simultaneously receives and consumes the benefits provided by the licensor determining the specific nature of the licence at any given time;
- (b) in assessing paragraph 35(b), activities that maintain the nature of the original licence created, such as checking eligibility is maintained, are unlikely to create or enhance the original licence as the benefits of meeting the eligibility criteria are obtained at inception, and activities confirming they continue to exist are not enhancing those benefits.

Question for Board members

Q1 Do Board members agree with the Staff recommendation to amend the guidance to reflect the Staff analysis set out in this paper?

Q2 Do Board members have any comments on the guidance as revised by Staff?

Section 2: Revised examples

- 3 This section contains the updated examples that depict licensing arrangements for a right to perform activities:
 - (a) that would be satisfied over time in accordance with paragraph 35 (see examples 8-9)
 - (b) that include administration and activities performed by the licensor to maintain exclusivity of the contract, which would not be separate performance obligations (see example 10);
 - (c) as well as promises by the licensor to perform other activities that are distinct services to the licensee, separate from the granting of the licence (for example, maintenance activities performed by the licensor that the licensee would otherwise engage a third party to do) (see example 11).
- 4 Staff note that there have been **no changes** to the wording of the following sections of the examples:
 - (a) is it a low-value or short term licence?
 - (b) is it an intellectual property licence?
 - (c) is the non-IP licence a lease or does it contain a lease?
- 5 Hence, Staff are only seeking comments on the sections relating to *whether it is a licence or a tax, identifying the performance obligations and accounting treatment*.
- 6 Staff note that they have set out questions to the Board in relation to this paper in Agenda Paper 3.0 (see Q3 of Agenda Paper 3.0).
- 7 ED 283 also contained an example illustrating how to account for variable consideration. Staff have not included this example in this Board paper as Staff are still assessing whether to apply the less onerous requirements of AASB 15 paragraph B63 as opposed to AASB 15 paragraphs 56-58. Staff will revise this example once the Staff have provided a recommendation to the Board and the Board has decided how to proceed with this aspect.

Example 8 – Casino licence that is satisfied over time in accordance with paragraph 35(a)

Public Sector Authority A (Licensor) granted Casino Operator B (Licensee) a licence to operate a casino in geographical location C for \$100 million.

The terms of the contract are:

- a period of ten years;
- payment for the arrangement is not refundable and is due when the licence is issued;
- the arrangement contains an exclusivity clause, whereby no other casinos may operate within geographical location C during the licence period. Licensor is responsible for protecting the exclusivity of the arrangement and will be responsible for the payment of damages to Licensee if exclusivity is breached;
- as part of the arrangement, Licensor is responsible for performing regulatory oversight and monitoring activities prior to issuing the licence and ongoing throughout the licensing period to ensure Licensee and operation of the casino remain free from criminal influence or exploitation, and gaming in the casino is conducted honestly
- the licensor has a right to give directions to the licensee at any time during the licence period, which can prescribe:
 - the way that the casino is to be conducted, supervised or operated;
 - whether or not and to what extent (if any) gaming machines are to be available in a casino; and
 - the permissible location, size or any other prescribed matter concerning the establishment of the casino; and
- The cost for granting the casino licence (including surveying the proposed gaming premises and the upfront and ongoing regulatory activities) is expected to be \$100,000.

Applying the accounting framework for licences issued by not-for-profit public sector licensors

Is the arrangement a licence or a tax?

- Licensor concludes its arrangement with Licensee is not a tax, as it permits the licensee to perform an activity that would otherwise be unlawful, creates enforceable rights for the Licensee, is a discretionary arrangement entered into by each of the parties, and its primary purpose is to ensure that gambling activities are conducted free from criminal influence or exploitation, as set out in paragraph G3. Although the arrangement has a low cost in relation to the consideration received, which might be indicative of a tax element, Licensor would not need to separately identify any tax element as the transaction price is fully non-refundable (ie the presumption in paragraph G4 of AASB 15 is not rebutted) and there is no other indicative evidence that similar activities conducted via other legal arrangements are being taxed.

Is it a low-value or short-term licence?

- Given that the transaction price of the licence is \$100 million and the term of the licence is 10 years, Licensor concludes that its arrangement with Licensee is not a low-value or short-term licence.

Is it an intellectual property (IP) licence?

- Licensor concludes its arrangement with Licensee is not an IP licence as the arrangement does not involve rights over intellectual property of the licensor as set out in G12.

Is the non-IP licence a lease or does it contain a lease?

- Licensor concludes its arrangement with Licensee gives Licensee a right to perform an activity (ie operate a casino) rather than conveying a right over an identified asset of the Licensor. Therefore the arrangement is not a lease and does not contain a lease.

Identifying the performance obligation

Who is the customer?

- Licensee (Casino Operator B) is the customer, as Licensee has contracted with Licensor to obtain goods or services that are an output of Licensor's ordinary activities in exchange for consideration (see Appendix A).

What are the goods and services promised in the arrangement?

- Licensor reviews the agreement to identify the goods or services that will be transferred to Licensee, the customer, and observes that the good or services promised to be transferred is the licence, being the 'right to perform' gambling activities (referred to throughout this activity as 'right to perform').
- The nature of Licensor's promise over this right is 'dynamic' as Licensee (customer) is not obtaining control of the same 'right to perform' over the term of the licence. This is because the right to perform granted to Licensee could change over the term of the licence based on the activities performed by and at the direction of Licensor (for example the venue where the gaming activities can be conducted, the number of gaming machines and the type of gaming activities could change).
- Licensor observes that the right to perform has the following attributes that define what has been promised as part of the right to perform (ie defines the boundary of what has been promised), but do not transfer a separate good or service to Licensee:
 - the licence is exclusive; and
 - to hold the licence, Licensee must meet certain eligibility criteria (including that the gaming offered is honest and free from criminal influence)
- Licensor observes that these regulatory activities that it performs prior to issuing the licence and throughout the licencing period do not transfer a good or service to Licensee separate from the licence. The Licensee must meet the eligibility criteria to be granted the licence and controls whether the criteria continue to be met. Accordingly, the ongoing Licensor checking does not transfer anything extra under the licence, and merely confirms that Licensee has not breached the licence. The impact of these activities and whether they create or enhance an asset controlled by licensee is assessed again when determining whether the licence performance obligation is satisfied at a point in time or over time (see below).
- Licensor does not identify any other types of distinct promises that would transfer a good or service to Licensee in the arrangement.

Accounting treatment

- The transaction price of \$100 million is wholly allocated to the single performance obligation of granting the licence
- Licensor concludes the performance obligation to grant the casino licence is satisfied over time in accordance with paragraph 35(a). Licensee simultaneously receives and consumes the benefits provided by Licensor's granting the licence. This is because Licensee controls the 'right to perform' in the form that exists at any given point in time and this form may change over the period of the licence (because the arrangement provides Licensor with a right to significantly change the nature of the right to perform granted to Licensee over the term of the licence and Licensee's ability to obtain benefits from the licence is dependent upon Licensor's ongoing activities throughout the term of the licence). Licensee will therefore simultaneously receive and consume the positive or negative effects of the changing right to perform as Licensor performs those activities and direction over the term of the licence.
- Licensor determines that para 35(b) is not met when considering the exclusivity and eligibility checking activities, as these are performed by Licensor prior to issuing the licence, and any benefit of patrons of the casino being more inclined to gamble at an establishment which is being regulated/monitored by Licensor have already passed to Licensee when the licence is issued. Ongoing regulatory activities merely maintain that existing licence rather than creating or enhancing the arrangement.
- Licensor notes that under para 35, only one of para a), b) or c) needs to be met to require recognition of revenue over time. Accordingly revenue should be recognised over time as 35(a) is met.
- Licensor determines that the nature of the promise to change the right to perform gambling activities is on a when-and-if basis which can significantly change throughout the licence period. In accordance with AASB 15 paragraph 39, Licensor concludes the best measure of progress towards complete satisfaction of the performance obligation is a time-based measure. Licensor recognises revenue on a straight-line basis

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throughout the contract period, and recognises \$10 million per year as the performance obligation is provided over the 10 year contract period.

- The following journal entry illustrates how Licensor accounts for this arrangement in accordance with AASB 15:

Debit		Credit
<i>Initial recognition (when licence issued/cash received)</i>		
Cash		\$100 million
	Contract liability	\$100 million
<i>Year 1 to Year 10 (when revenue is recognised)</i>		
	Contract liability	\$10 million
	Revenue	\$10 million

Example 9 – Right to perform satisfied over time in accordance with paragraph 35(b)

Public Sector Authority A (Licensor) granted Nurse C (Licensee) a licence to work as an accredited nurse in geographical location C for \$1,000.

The terms of the arrangement are:

- a period of five years;
- payment for the arrangement is not refundable and is due when the licence is issued;
- licensee must meet certain educational and criminal history eligibility criteria before being granted the licence
- as part of the arrangement, Licensor is responsible for performing regulatory oversight and monitoring activities prior to issuing the licence and ongoing throughout the licensing period to ensure Licensee is appropriately qualified and fit to be issued the licence and continues to maintain those requirements throughout the licence period. If Licensor becomes aware of concerns about a licensed nurse who is operating outside the conditions of the licence, Licensor has an obligation to protect the public by taking timely and necessary action. This could involve revoking the licence.
- licensor commits to conduct ongoing promotional activities, including a nationwide television campaign to build the value of being accredited by Licensor. Being accredited by Licensor would enhance public confidence that Licensee is a fit and proper professional and would enhance the value of having a right to perform nursing activities (referred to throughout this activity as 'right to perform').
- The cost for granting the licence (including promotional, upfront and ongoing regulatory activities) is expected to be \$100.

Applying the accounting framework for licences issued by not-for-profit sector licensors

Is the arrangement a licence or a tax?

- Licensor concludes its arrangement with Licensee is not a tax, as it permits the licensee to perform an activity that would otherwise be unlawful, creates enforceable rights for the Licensee, is a discretionary arrangement entered into by each of the parties, and its primary purpose is to ensure that nursing is conducted in a safe manner, as set out in paragraph G3. Although the arrangement has a low cost in relation to the consideration received, which might be indicative of a tax element, Licensor would not need to separately identify any tax element as the transaction price is fully non-refundable (ie the presumption in paragraph G4 of AASB 15 is not rebutted) and there is no other indicative evidence that similar activities conducted via other legal arrangements are being taxed.

Is it a low-value or short-term licence?

- Given that the transaction price of the licence is \$1,000 and the term of the licence is 5 years, Licensor concludes that its arrangement with Licensee is low-value but not short-term. Licensor is eligible for the recognition exemption, but elects not to apply it.

Is it an intellectual property (IP) licence?

Licensor concludes its arrangement with Licensee is a not an IP licence as the arrangement does not involve rights over intellectual property of the licensor as set out in paragraph G12.

Is the non-IP licence a lease or does it contain a lease?

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Licensor concludes that the arrangement is to grant a right to perform work as a nurse to Licensee, and does not convey a right to control the use of an identified asset. Therefore, the arrangement is not a lease and does not contain a lease.

Identifying the performance obligation

Who is the customer?

- Licensee (Nurse C) is the customer, as Licensee has contracted with Licensor to obtain goods or services that are an output of Licensor's ordinary activities in exchange for consideration (see Appendix A).

What are the goods and services promised in the arrangement?

- Licensor reviews the agreement to identify the goods or services that will be transferred to Licensee, the customer, and observes that the good or service promised to be transferred is the right to perform work as a nurse.
- Licensor observes that the activities to promote and build the value of being accredited does not transfer a separate good or service to the customer, as the activities are not specific to the licensee, but instead affects whether there is a creation or enhancement of the underlying right to perform being provided under the licence considered when determining when the performance obligation of issuing the right to perform is satisfied.
- Licensor observes Licensee must meet certain eligibility criteria to be granted the right to perform. This is an attribute that defines what has been promised as part of the right to perform (ie defines the boundary of what has been promised), but does not transfer a separate good or service to Licensee.
- Licensor observes that the regulatory activities that it performs prior to issuing the licence and throughout the licencing period do not transfer a good or service to Licensee separate from the licence. The licensee must meet the eligibility criteria to be granted the licence and controls whether the criteria continue to be met. Accordingly, the ongoing Licensor checking does not transfer anything extra under the licence, and merely confirms that Licensee has not breached the licence. The impact of these activities and whether they create or enhance an asset controlled by the Licensee is assessed when determining whether the licence performance obligation is satisfied at a point in time or over time (see below).
- Licensor does not identify any remaining promises to transfer a good or service to Licensee in the arrangement.

Accounting treatment

- The transaction price of \$1,000 is wholly allocated to the single performance obligation of granting the licence.
- Licensor concludes the performance obligation to grant the nursing licence is satisfied over time in accordance with paragraph 35(b). This is because Licensor has explicitly committed, and Licensee expects, that Licensor will promote the accreditation and thus enhance the licence being provided by the Licensor as and when Licensor performs those promotional activities.
- Licensor determines that the nature of the promise to promote (ie enhance) the right to perform nursing activities is on an as-and-when basis at any time during the licence period. In accordance with paragraph 39, Licensor concludes the best measure of progress towards complete satisfaction of the performance obligation is a time-based measure. Licensor recognises revenue on a straight-line basis throughout the licence period, and recognises \$200 per year as the promotional activities are provided over the 5 year period.
- The following journal entry illustrates how Licensor accounts for this arrangement in accordance with AASB 15:

Debit		Credit
Initial recognition (when licence issued/cash received)		
Cash	\$1,000	
Contract liability		\$1,000
Year 1 to Year 5 (when revenue is recognised)		
Contract liability	\$200	
Revenue		\$200

Example 10 – Casino licence recognised at a point in time

- In this example, the facts of Example 8 apply, except that the licensor **does not** have a right to give directions to Licensee at any time during the licence period, which can prescribe:
 - the way that the casino is to be conducted, supervised or operated;
 - whether or not and to what extent (if any) gaming machines are to be available in a casino; or
 - the permissible location, size or any other prescribed matter concerning the establishment of the casino.

Accordingly, the terms of the contract are now as follows:

Public Sector Authority A (Licensor) granted Casino Operator B (Licensee) a licence to operate a casino in geographical location C for \$100 million.

The terms of the contract are:

- a period of ten years;
- payment for the arrangement is not refundable and is due when the licence is issued;
- the arrangement contains an exclusivity clause, whereby no other casinos may operate within geographical location C during the licence period. Licensor is responsible for protecting the exclusivity of the arrangement and will be responsible for the payment of damages to Licensee if exclusivity is breached;
- as part of the arrangement, Licensor is responsible for performing regulatory oversight and monitoring activities prior to issuing the licence and ongoing throughout the licensing period to ensure Licensee and operation of the casino remain free from criminal influence or exploitation, and gaming in the casino is conducted honestly; and
- The cost for granting the casino licence (including surveying the proposed gaming premises) is expected to be \$100,000.

Applying the accounting framework for licences issued by not-for-profit public sector licensors

Licensor makes the same conclusions as in Example 8 for the following steps:

- Is the arrangement a licence or a tax?
- Is it a low-value or short-term licence?
- Is it an intellectual property (IP) licence?
- Is the non-IP licence a lease or does it contain a lease?

Identifying the performance obligation

Who is the customer?

- Licensee (Casino Operator B) is the customer, as Licensee has contracted with Licensor to obtain goods or services that are an output of Licensor's ordinary activities in exchange for consideration (see Appendix A).

What are the goods and services promised in the arrangement?

- Licensor reviews the agreement to identify the goods or services that will be transferred to Licensee, the customer, and observes that the good or service promised to be transferred is the licence being the right to perform gambling activities (referred to throughout this activity as 'right to perform').

For the same reasons as set out in Example 8, Licensor observes Licensee must meet certain eligibility criteria to be granted the right to perform. This is an attribute that defines what has been promised as part of the right to perform (ie defines the boundary of what has been promised), but does not transfer a separate good or service to Licensee.

- Licensor observes that the right to perform has the following attributes that define what has been promised as part of the right to perform (ie defines the boundary of what has been promised), but do not transfer a separate good or service to Licensee:
 - the licence is exclusive; and
 - to hold the licence, Licensee must meet certain eligibility criteria (including that the gaming offered is honest and free from criminal influence)
- Licensor observes that these regulatory activities that it performs prior to issuing the licence and throughout the licencing period do not transfer a good or service to Licensee separate from the licence. The licensee must meet the eligibility criteria to be granted the licence and controls whether the criteria continue to be met. Accordingly, the ongoing Licensor checking does not transfer anything extra under the licence, and merely confirms that Licensee has not breached the licence. The impact of these activities and whether they create or

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enhance an asset controlled by the Licensee is assessed when determining whether the licence performance obligation is satisfied at a point in time or over time (see below).

Licensors does not identify any remaining promises to transfer a good or service to Licensee in the arrangement.

Accounting treatment

- The transaction price of \$100 million is wholly allocated to the single performance obligation of granting the licence.
- In accordance with paragraph 31, Licensor recognises revenue of \$100 million when it satisfies the performance obligation of providing Licensee with the licence to operate a casino.
- The performance obligation to grant the casino licence is satisfied at a point in time. It is not satisfied over time, in accordance with paragraph 35, as:
 - (a) Licensee does not simultaneously receive and consume the benefits provided by Licensor's performance as Licensor performs (ie the promise of the right to perform in this instance is available as soon as the licence is issued and the nature of that promise does not significantly change over the term of the licence as a result of the activities of Licensor). In other words, Licensee's rights to perform the activities do not change as a result of activities or direction of Licensor throughout the contract period);
 - (b) Licensor's performance over the term of the licence does not enhance the right to perform gambling activities that Licensee controls at the start of the arrangement (ongoing regulatory activities merely maintain the value of the rights provided to Licensee); and
 - (c) The right to payment is when the right to perform gambling activities is granted ie at the start of the arrangement.
- In accordance with paragraph 38, Licensor concludes its single performance obligation of providing the casino licence to Licensee is satisfied when the licence is issued – at inception of the contract – as Licensee has the ability to direct the use of, and obtain substantially all of the benefits and rights, from the promised licence.
- The following journal entry illustrates how Licensor accounts for this arrangement in accordance with AASB 15:

<i>Initial recognition</i>	<i>(when licence issued /cash received)</i>	Debit	Credit
Cash		\$100 million	
	Revenue		\$100 million

Example 11 – Casino licence with other distinct goods or services

In this example, the facts of Example 10 apply, except that, in addition to granting the licence, Licensor will perform yearly maintenance of Licensee’s gaming machines throughout the licence to ensure that the gaming machines are in working order and not in need of repair. If such services were not provided by Licensor, it is expected that Licensee would engage a third party to carry out the maintenance services to provide assurance to Licensee’s customers that the machines are functioning as they should be. In addition:

- Licensor observes that, based on market conditions, a customer in the market for such services would be willing to pay \$5 million for them; and
- the upfront payment of \$100 million includes the maintenance services.

Applying the accounting framework for licences issued by not-for-profit public sector licensors

- Licensor concludes on the same basis as Example 8 that its arrangement to issue a non-IP licence to Licensee is not a tax and represents a contract with a customer as defined in AASB 15, and the arrangement is not a lease or does not contain a lease.

Identifying the performance obligations

- Licensor concludes that the promise to perform maintenance services on the gaming machines is distinct from granting the licence to operate a casino, in accordance with paragraph 27, as:
 - a) Licensee can benefit from the service either on its own or together with other resources that are readily available to Licensee (ie Licensee can benefit from the maintenance services performed on its gaming machines). In making this assessment, Licensor observes that if it were not providing this service to Licensee, the licence would be reasonably expected to obtain such services from a third party; and
 - b) Licensor’s promise to transfer the good or service to Licensee is explicitly stated in the licence agreement, and hence is separately identifiable from other promises in the contract (ie the nature of Licensor’s promise is to transfer the maintenance services separately to the granting of the casino licence).

Accounting treatment

- The transaction price of \$100 million is allocated to the two distinct performance obligations, in accordance with AASB 15 paragraph 73-83.
- Licensor does not sell the maintenance service separately, and therefore estimates the stand-alone selling price for the maintenance service using the adjusted market assessment approach. Licensor observes the price that customer in the market would be willing to pay for the maintenance services is \$5 million and does not consider it necessary to adjust those prices to reflect any circumstances of Licensor (AASB 15 paragraph 79(a)).
- In determining the stand-alone price of issuing the right to perform gambling activities, Licensor determines that it does not have reasonably available observable inputs, as the entity has not yet established a price for issuing the right to perform gambling activities, has not previously sold the right to perform gambling activities on a stand-alone basis and there is no active market. Licensor therefore uses the residual approach to allocate \$95 million to issuing the right to perform in accordance with paragraph 79(c).
- Licensor concludes on the same basis as Example 10 that the performance obligation of granting the licence is satisfied at a point in time, when the licence is granted to Licensee. Therefore, \$95 million will be recognised as revenue when licence is issued.
- Licensor determines that the yearly maintenance services are a series of distinct services that are substantially the same and have the same pattern of transfer to Licensee (refer paragraph 22(b)), and that performance obligation is satisfied over time, in accordance with paragraph 35(a) as Licensee simultaneously receives and consumes the benefits provided by Licensor’s performance as Licensor performs them (ie the benefits of the maintenance services is consumed by Licensee as Licensor performs);
- Licensee benefits from the maintenance services evenly throughout the contract period, and in accordance with AASB 15 paragraph 39, the best measure of progress towards complete satisfaction of the performance obligation is a time-based measure. Licensor recognises revenue on a straight-line basis throughout the contract period, and recognises \$500,000 per year as maintenance services are provided over the 10 year contract period.
- The following journal entry illustrates how Licensor accounts for this arrangement in accordance with AASB 15:

Debit	Credit
<i>Initial recognition</i>	<i>(when licence issued/cash received)</i>
Cash	\$100 million

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Revenue	\$95 million
Contract liability	\$5 million
<i>Year 1 to Year 10 (when revenue from maintenance services is recognised)</i>	
Contract liability	\$500,000
Revenue	\$500,000

Question for Board members

Q3 Do Board members have any comments on the illustrative examples set out in this paper?

Q4 Staff consider that the illustration in Example 10 that protecting exclusivity and monitoring eligibility are not performance obligations or affect whether a performance obligation is satisfied over time might already be sufficiently demonstrated in example 8. Do Board Members consider that Example 10 adds enough value to include in a final Standard?