Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Income of Not-for-Profit Entities**	**Meeting**	AASB August 2016 (M153)
Topic:	**AASB 15 disclosure considerations**	**Agenda Item:**	3.6.3
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Introduction and objective of this paper

1 The objective of this paper is to obtain Board decisions on whether the disclosure requirements in AASB 15 *Revenue from Contracts with Customers* should be reduced specifically for not-for-profit (NFP) entities.

2 AASB 1053 *Application of Tiers of Australian Accounting Standards* permits all NFP entities (except for the Australian Government and State, Territory and Local Governments) that prepare general purpose financial statements, to apply Tier 2 reporting requirements (i.e. Reduced Disclosure Requirements (RDR))[1]

3 In determining whether any NFP entity specific reductions should be made to the disclosure requirements in AASB 15, both (i) the *Process for Modifying IFRSs for PBE/NFP* (the Process)*;* and (ii) Tier 2 reporting requirements (i.e. RDR) should be considered.

4 This paper discusses the interaction between the Process and the development of the RDR requirements in AASB 15, and also considers whether any NFP-specific reductions are required to AASB 15 disclosure requirements in light of the Board's Income of Not-for-Profit Entities project.

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1 AASB 1053, paragraph 13:

Tier 2 reporting requirements shall, as a minimum, apply to general purpose financial statements of the following types of entities:

(a) for-profit private sector entities that do not have public accountability;

(b) not-for-profit private sector entities; and

(c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

Link to project summary

http://www.aasb.gov.au/admin/file/content102/c3/Income_of_Not_for_Profit_Entities_Project_Summary.pdf

Summary of staff recommendation

5 Staff recommend that no NFP entity specific disclosure reductions are made in AASB 15.

Background

6 When issuing a new Standard the Board would consider whether any NFP entity specific modifications are required based on the Board's *Process for modifying IFRSs for PBE/NFP* (Oct 2009) (the Process). All the requirements in a Standard, including disclosures, are considered in undertaking the Process to determine if any modifications are needed.

7 In addition to the Process, the Board introduced Tier 2 reporting requirements (i.e. substantially reduced disclosure requirements) as a minimum, for for-profit entities without public accountability and all not-for-profit entities except for the Australian Government and State, Territory and Local Government (referred to as Governments in this paper) that prepare general purpose financial statements (AASB 1053 paragraph 13). All other entities preparing general purpose financial statements would apply Tier 1 reporting requirements. When considering disclosures for Tier 2 reporting requirements, the Board follows its Tier 2 disclosure principles.

8 In recent years the Board has been redeveloping the Tier 2 disclosure principles in a joint project with the New Zealand Accounting Standards Board (NZASB). While still under development, the draft Tier 2 decision-making framework (as presented to the Board in June 2016) acknowledges that Tier 2 disclosure requirements apply equally to all entities applying reduced disclosure requirements – including NFP entities. Consequently, the specific nature and characteristics of NFP entities continue to be a factor to consider in deciding the Tier 2 reduced disclosure requirements under the draft Tier 2 decision-making framework.

9 The Board's approach to NFP-entity specific disclosures is therefore a layered one. The Process requires the Board to consider the nature and characteristics of NFP entities in the context of modifying a Standard (including disclosures) for NFP entities. The Tier 2 decision-making framework implements this in terms of NFP entity disclosures. In other words, the Tier 2 reporting requirements incorporate consideration of the nature and characteristics of NFP entities in determining the disclosure requirements for Tier 2 entities (including NFP entities).

Staff analysis

Process for modifying IFRSs for PBE/NFP

10 Paragraph 9 of the *Process for modifying IFRSs for PBE/NFP* identifies two questions that would generally be considered when modifying an IFRS:

(a) Are there issues that might warrant modifying an IFRS for PBE/NFP?

(b) Are the identified issues sufficiently significant to warrant a departure from an IFRS?

11 The process further notes in paragraph 12 that the characteristics of transactions in the NFP sector, as compared to the for-profit sector, may require modifications to the relevant IFRS to ensure that user needs are met while considering the balance between costs and benefits. The following factors would generally be reviewed when considering differences in user needs between the for-profit and PBE/NFP sectors:

(a) nature of transactions, events and circumstances and their impact on PBE/NFP;

(b) benefits to users of complying with IFRS; and

(c) costs of complying with IFRS.

12 When considering if there are any issues that warrant modification it is useful to note whether the International Public Sector Accounting Standards Board (IPSASB) has made a modification to IFRS requirements in its pronouncements.

13 AASB staff note that the IPSASB is still in the early stages of its project to review its revenue Standards. The IPSASB has reviewed in part IFRS 15's recognition and measurement requirements and has not yet progressed to the disclosure requirements in IFRS 15. Staff note that the IPSASB has not published an indicative timeline for this project. Consequently, no conclusions can be drawn from this project at this time.

<u>Development of RDR in AASB 15 *Revenue from Contracts with Customers*</u>

14 The Board first exposed AASB 15 RDR requirements in the Tier 2 supplement to ED 222 *Revenue from Contracts with Customers*, which was based on IASB ED/2011/6 (of the same name) issued in November 2011. ED 222 requested specific feedback on the Tier 2 proposals in the context NFP entities and public sector entities. The Board received four submissions[2] on the ED, three of which did not express any significant concerns. HoTARAC expressed concern in their submission regarding disclosure paragraphs 118, 119 and 122 (as exposed in ED 222 – see Appendix A) and their application in the not-for-profit public sector context. At its April 2012 meeting the Board decided to retain the RDR proposals without modification pending any changes as the Revenue project progressed.

15 The IASB issued IFRS 15 *Revenue from Contracts with Customers* in May 2014, which had some modifications to the disclosure requirements as previously exposed in 2011. Among other changes, the final IFRS 15 did not retain paragraph 122 from ED/2011/6 but carried paragraphs 118 and 119 from that ED as paragraphs 119 and 120, respectively (see Appendix A).

16 At its July 2014 meeting the Board reviewed the feedback it had received on the Tier 2 disclosure relief it had previously proposed in ED 222 and considered the changes made to the IFRS 15 disclosures since the 2011 IASB ED. Consequently, the Board issued ED 251 *Revenue from Contracts with Customers – Tier 2 proposals*, which

2 The four submissions were from: PwC, KPMG, HoTARAC and the joint professional bodies.

proposed retaining paragraph 119[3] (previously paragraph 118 in ED 222) and excluding paragraph 120 (previously 119 in ED 222). ED 251 sought adverse comments on its proposals. At its September 2014 meeting the Board noted no adverse comments to ED 251 and finalised the proposals in ED 251 for Tier 2 entities.

Need for further consideration of NFP entities (other than Governments)

17 Staff note that the principles upon which reduced disclosure requirements are determined for NFP entities are essentially the same as those the Process requires for NFP-specific modifications. Therefore, staff are of the view that had the Process been applied to AASB 15 disclosure requirements the NFP entity specific disclosure reductions would have been similar to the outcome of the RDR process.

18 Staff also note that the AASB 15 disclosures are currently being reconsidered under the draft Tier 2 decision-making framework. As mentioned in paragraph 8, this decision-making framework continues to consider the nature and characteristics of NFP entities when determining the reduced disclosure requirements for Tier 2 entities. The aim of the revised framework is to increase the relevance of the disclosures for Tier 2 entities, which could result in further reductions from the current Tier 2 reporting requirements in AASB 15.

19 Based on this analysis, staff consider that Tier 2 reporting requirements (i.e. reduced disclosures) capture all necessary consideration of NFP entity characteristics (other than those of Governments). Consequently, no further analysis would be needed for NFP entities other than Governments. Staff consider that the reduced disclosure requirements for AASB 15, that would be an outcome of the Tier 2 decision-making framework, when finalised, would fairly reflect the types of disclosures that NFP entities other than Governments would need to make, taking into consideration the costs to the preparers and the benefits to users.

Disclosures for Governments

20 When making AASB 1053 the Board concluded that Governments should be subject to Tier 1 reporting requirements, in particular because of their coercive power to tax, rate or levy (AASB 1053.BC52). These factors were considered in addition to others that as a whole convinced the Board to retain full-IFRS requirements for these entities.

21 However, the Board may still further reduce IFRS disclosure requirements for Tier 1 entities in special circumstances, as it did for NFP public sector entities (which included Tier 1 entities) making AASB 13 *Fair Value Measurement* disclosures. In that instance the Board decided to provide limited disclosure relief[4] for NFP public sector entities relating to Level 3 fair value measures of assets within the scope of

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3 The Board based this decision on its judgement that the disclosure satisfies user information needs in regard to short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities without significantly increasing the costs to the reporting entity.

4 The Board exempted public sector not-for-profit entities from compliance with paragraphs 93(d), 93(f) and 93(h)(i) of AASB 13. These disclosure requirements are reproduced in Appendix B.

AASB 116 *Property, Plant and Equipment* that are primarily held for their service potential rather than to generate future cash flows.

22 The Board noted that the nature and quantity of the assets held, and the nature of the unobservable inputs used in their respective valuation techniques would result in largely meaningless disclosures concerning the classes of, and valuation techniques applied to, those assets.

23 The Board considered the ongoing costs to make the disclosures about varied and long-lived assets unique to the public sector against the marginal benefits to users of that information. On balance, in the Board's view these incremental ongoing costs outweighed the benefits to users. Consequently the Board reduced the disclosure requirements in AASB 13 for public sector NFP entities (see Appendix B for the specific disclosures).

24 Staff note that in the case of AASB 13, the Board received numerous submissions from the public sector on the narrow issue described above, both before and after the Standard became effective. In the case of AASB 15 the Board has received only one submission (HoTARAC) regarding the application of paragraphs 119 and 120 in the public sector generally. The AASB did not receive any submissions or feedback relating to AASB 15 disclosure requirements for Tier 1 NFP entities (i.e. Governments).

25 Furthermore, staff note that the facts and circumstances that gave rise to the reduction of disclosures in AASB 13 for Tier 1 NFP public sector entities do not exist for AASB 15. Specifically, AASB 15 only requires an entity to disclose **information** about the inputs relating to performance obligations and the transaction price and **information** about changes in those inputs (which can be qualitative information in the form of narratives). On the other hand, AASB 13 specifically requires **quantitative disclosure** of inputs to Level 3 fair values and the changes in those inputs. The reasons for reducing these disclosures for NFP public sector entities as highlighted in paragraphs 22-23 of this paper do not apply to AASB 15 disclosures.

26 Accordingly, staff do not think that the circumstances that gave rise to the NFP public sector disclosure reductions in AASB 13 exist in respect of AASB 15.

27 In consideration of the above analysis and the powers of Governments noted in paragraph 20, staff are of the view that the benefits to users of the AASB 15 disclosures exceed the costs to Governments in making them.

Staff recommendation

28 Based on the above analysis, staff recommend that no NFP-specific disclosure reductions are made to AASB 15.

Question to Board members

Do Board members agree with the staff recommendation to:

(a) not make any NFP-specific AASB 15 disclosure reductions in respect of NFP entities applying Tier 2 Reduced Disclosure Requirements?

(b) not make any NFP-specific AASB 15 disclosure reductions in respect of Governments?

Appendix A

The table below is an extract of the disclosure paragraphs referenced in paragraph 14 of this agenda paper. The first column lists disclosures included in ED 222, the second column includes disclosures from the final Standard. Shading is included to indicate disclosures excluded for RDR purposes in AASB 15.

ED 222	**AASB 15**
Performance obligations 118 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following: (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service); (b) the significant payment terms (for example, when payment is typically due, whether the consideration amount is variable and whether the contract has a significant financing component); (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent); (d) obligations for returns, refunds and other similar obligations; and (e) types of warranties and related obligations.	**Performance obligations** 119 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following: (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement; (b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financial component, whether the consideration amount is variable and whether the ~~contract has a significant financing component)~~ estimate of variable consideration is typically constrained in accordance with paragraphs 56-58); (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent); (d) obligations for returns, refunds and other similar obligations; and (e) types of warranties and related obligations.
119 For contracts with an original expected duration of more than one year, an entity shall disclose the following information as of the end of the current reporting period: (a) the aggregate amount of the transaction price allocated to remaining performance obligations; and	120 ~~For contracts with an original expected duration of more than one year, a~~ An entity shall disclose the following information about its performance obligations ~~as of the end of the current reporting period~~: (a) the aggregate amount of the transaction price allocated to ~~remaining~~ performance obligations that are unsatisfied (or partially unsatisfied)

<table>
<tr><th>ED 222</th><th>AAASB 15</th></tr>
<tr><td>(b) an explanation of when the entity expects to recognise that amount as revenue.</td><td><u>as of the end of the current reporting period</u>; and
(b) an explanation of when the entity expects to recognise <u>as revenue the</u> ~~that~~ amount ~~as revenue.~~ <u>disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways:</u>
~~120 An entity may disclose the information in paragraph 119 either~~
<u>(i)</u> on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations<u>;</u> or
<u>(ii)</u> by using qualitative information.</td></tr>
<tr><td>Onerous performance obligations
122 An entity shall disclose the amount of the liability recognised for onerous performance obligations along with a description of all of the following:
(a) the nature and amount of the remaining performance obligation(s) in the contract that are onerous for which the liability has been recognised;
(b) why those performance obligations are onerous; and
(c) when the entity expects to satisfy those performance obligations.</td><td>[Not retained in AASB 15]</td></tr>
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Appendix B

This appendix reproduces the AASB 13 *Fair Value Measurement* disclosures that the Board reduced for public sector NFP entities. RDR shading is included for reference. The removed disclosure requirements in respect of public sector not-for-profit entities, for assets within the scope of AASB 116 *Property, Plant and Equipment* for which the future economic benefits are not primarily dependent on the asset's ability to generate net cash inflows, are denoted in bold and italics.

93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Standard) in the statement of financial position after initial recognition:

(a) …

(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. ***For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.***

(e) …

(f) ***for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.***

(g) …

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(i) ***for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair***

value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).

(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

(i) …