



<b>Project:</b>	<b>Income of NFP Entities</b>	<b>Meeting</b>	AASB August 2016 (M153)
<b>Topic:</b>	<b>Effective Date</b>	<b>Agenda Item:</b>	3.7
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Redeliberations

## Introduction and objective of this paper

- The objective of this paper is to obtain Board member views on whether the effective date of the ultimate Standard AASB 10XX *Income of Not-for-Profit Entities* and/or NFP implementation guidance for AASB 15 *Revenue from Contracts with Customers* should be deferred from annual reporting periods beginning on or after 1 January 2018 to annual reporting periods beginning on or after 1 January 2019. The effective date of AASB 15 for NFP entities is therefore also in question.

## Attachments

- Paper 3.7.1 Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), letter to AASB Chair, dated 15 July 2016

## Issue

- The current timetable for the project aims for publication of the new Standard AASB 10XX and the implementation guidance for AASB 15 in November 2016.<sup>1</sup> The issue is whether this provides an adequate lead time for NFP private sector and public sector entities in relation to an effective date of 1 January 2018 (which would typically initially affect the 2018/19 financial year).

## Background

- Exposure Draft ED 260 *Income of Not-for-Profit Entities* (April 2015) proposed that AASB 10XX and the implementation guidance would both apply to annual reporting periods beginning on or after 1 January 2017, which was the effective date of AASB 15 during the exposure period. The Board intended AASB 10XX and the implementation guidance to apply from the same initial effective date as AASB 15.

<sup>1</sup> The AASB Standard Setting Work Program published on the AASB website has indicated a publication date of the second half of 2016 for some time.

- 4 The effective date of AASB 15 was deferred in October 2015 (subsequent to the exposure period) to periods beginning on or after 1 January 2018, following deferral of the new IASB and US standards on revenue. Accordingly, the current draft AASB 10XX and implementation guidance are expressed as applying from 1 January 2018, to retain the same initial effective date as AASB 15.
- 5 Submissions received in response to ED 260 had addressed the effective date of the proposals in respect of the then potential deferral by the IASB of the effective date of IFRS 15. However, the Board has received the attached request from HoTARAC for at least a one-year deferral of the application date of AASB 15, AASB 10XX and the implementation guidance for AASB 15. The request is made in relation to both public sector entities and other NFP reporting entities. There have not been widespread calls for deferral.
- 6 The issue was discussed at a Project Advisory Panel meeting, held in July 2016. Some panel members support deferral of AASB 15, AASB 10XX and the implementation guidance for NFP entities, given the timelines involved and the system changes necessary to address the revised accounting for grants and endowments particularly. Other panel members support the deferral of AASB 10XX and the implementation guidance, but no deferral in respect of AASB 15. These panel members hold the view that there is sufficient lead time for NFP entities (both public sector and private sector) to address the implementation of AASB 15. Another view against any deferral of AASB 15 for NFP entities was that deferral simply delays the implementation effort as the priority is reduced, leaving entities in the same position as presently.

### Staff analysis

- 7 The principal questions regarding any deferral: what requirements might be deferred, for which entities, and for what period? The alternatives addressed in this paper are summarised in the following table:

Question	Alternatives
Requirements to defer?	(1) just AASB 10XX and implementation guidance for AASB 15 (called “partial deferral” in this paper); or (2) AASB 15, AASB 10XX and the implementation guidance for AASB 15 (called “full deferral”).
Which entities?	(3) NFP public sector entities; or (4) NFP public sector and private sector entities.
What period?	(5) one year to 1 January 2019; or (6) a longer or shorter period.

### Timelines

- 8 To assist in addressing these questions, the following timelines set out the timing of the publication of the pronouncements, their mandatory application from periods beginning on or after 1 January 2018 and the possible deferrals of mandatory application to a later period.

AASB 15 (issued Dec 2014)	Year 1	Year 2	Year 3	Year 4	Year 5
Lead time (full years)	2015/16	2016/17	2017/18		
Applies from 1-1-18				2018/19	
Deferral for NFP entities?					Deferred?

AASB 10XX and guidance (issue planned Nov 2016)			Year 1	Year 2	Year 3
Lead time (full years)			2017/18		
To apply from 1-1-18				2018/19	
Deferral for NFP entities?					Deferred?

- 9 Transition provisions in both AASB 15 and the draft AASB 10XX permit initial application at the start of the current period (i.e. 2018/19 in the normal case), which means that comparative information (for 2017/18) does not have to be restated, unless an entity elected full retrospective application under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, opening adjustments would still need to be determined as at the start of that current period, with various practical expedients simplifying that process.
- 10 At the Project Advisory Panel meeting, one panel member expressed the view that some NFP entities would want to restate comparatives under the AASB 108 approach, for better financial reporting. For such entities, there is very limited lead time in respect of AASB 10XX and the AASB 15 implementation guidance.

What requirements might be deferred?

*Partial deferral*

- 11 A “partial” deferral would apply only to AASB 10XX and the implementation guidance for AASB 15. Under this approach, AASB 15 would still apply to all entities at the same time, i.e. periods beginning on or after 1 January 2018 (i.e. typically from the 2018/19 financial year). This would mean that the existing AASB 1004 *Contributions* would then apply alongside AASB 15, which has not been addressed previously. ED 260 was intended to address that interaction and update the requirements of AASB 1004.
- 12 However, this approach could be made to work during the deferral period by ensuring that the scope of AASB 1004 takes precedence over AASB 15 for affected entities. That is, transaction types subject to AASB 1004 would continue to be subject to that Standard, and transaction types subject to AASB 118 *Revenue* (and the other pronouncements superseded by AASB 15<sup>2</sup>) would become subject to AASB 15. In this way, NFP entities would not need to address the scope issues between

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2 The other pronouncements superseded by AASB 15 are AASB 111 *Construction Contracts*, and Interpretations 13 *Customer Loyalty Programmes*, 15 *Agreements for the Construction of Real Estate*, 18 *Transfers of Assets from Customers*, 131 *Revenue – Barter Transactions Involving Advertising Services* and 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*.

AASB 1004 and AASB 15 until AASB 10XX and the implementation guidance became effective.

- 13 This would mean that all “contributions” (defined in AASB 1004 as non-reciprocal transfers to an entity) would continue to be accounted for under AASB 1004. Therefore, reciprocal transactions would be subject to AASB 15 instead of AASB 118 and the other superseded pronouncements. An entity would not need to reconsider the classification of existing transaction types as reciprocal or non-reciprocal.
- 14 The assumption underlying this approach is that, because the accounting is unlikely to change, the reciprocal transactions of NFP entities that are presently accounted for under AASB 118 and related pronouncements could be appropriately accounted for under AASB 15 without additional implementation guidance for NFP entities. This assumption would be appropriate for many transactions of NFP entities covered by AASB 118 – such as education service charges and other fee-for-service transactions and sale of goods in the ordinary course of business, etc – which generally would be recognised as revenue in the period of receipt of the charges or when the goods are sold.
- 15 Presumably there would be transactions where the application of AASB 15 instead of AASB 118 is not straightforward. However, such transactions would not arise only for NFP entities. The implementation guidance proposed for AASB 15 addresses transactions previously in the scope of AASB 1004, not AASB 118. Analysis of the basic AASB 15 paragraphs indicates the main NFP issue relates to licences in the public sector (see agenda paper 3.9 for this meeting). The main issues encountered in the for-profit sector with AASB 15 relate to bundled goods and services and constructed assets. Constructed assets with related grants are being addressed in AASB 10XX rather than AASB 15 for NFP entities, and bundled goods and services in the NFP sector are unlikely to raise new issues as AASB 118 would already have required allocation between reciprocal and non-reciprocal transactions.
- 16 NFP entities will have had the same lead time as for-profit (FP) entities in considering the application of AASB 15. However, it is possible that NFP entities have not done much preparation for AASB 15 while awaiting the issuance of AASB 10XX and the implementation guidance for AASB 15.

#### *Non-comparability*

- 17 Partial deferral would mean that some transaction types would be accounted for under AASB 1004 by affected NFP entities and under AASB 15 by FP entities and any unaffected NFP entities (if deferral doesn’t apply to some NFP entities). For example, grants received might be accounted for under AASB 1004 as income, whereas under AASB 15 an entity might initially recognise liabilities for performance obligations under the grants.
- 18 This would result in a lack of comparability between NFP entities under the deferral and other entities. However, the “full deferral” approach could result in a greater lack of comparability, since NFP entities under that deferral approach would not be required to apply AASB 15 at all during the deferral period.

### *Full deferral*

- 19 A “full” deferral would be not only of AASB 10XX and the implementation guidance for AASB 15, but also of AASB 15 itself. This would mean that the status quo of AASB 1004 *Contributions* and AASB 118 *Revenue* (and the other related pronouncements) would continue to apply to affected entities until superseded by AASB 15 and all of its related materials at a later date.
- 20 HoTARAC argues for this full deferral approach, explaining that the implementation of new Standards is basically one year earlier for public sector entities than for other entities due to their adoption for accrual budgeting purposes. The budgeting cycle is a continuous one, with budget approval either prior to or early in the financial year. Forward estimate updates occur throughout the year, for example as early as September/October in the year. Preparing the budget using the same accounting policies as applicable to the annual financial report for the year means that new accounting policies are applied during the budgeting process, not just the financial reporting process.
- 21 This may result in applying the new accounting policies (to budget information) under a timeframe similar to restating comparatives under the fully retrospective transition approach. However, a Project Advisory Panel member suggested that although a consistent basis for the budgeting framework for a financial year is preferred, it is not essential. Nevertheless, a different basis would be likely to complicate the reporting of major variances between budget and financial statement amounts under AASB 1055 *Budgetary Reporting*.
- 22 Early application could still be permitted despite a full deferral. This would allow NFP entities to elect to apply AASB 15, its implementation guidance and AASB 10XX in advance of the deferred effective date, to have the benefit of the improvements brought by those pronouncements.

### *Implementation costs*

- 23 The HoTARAC letter also notes that planning, education and implementation of the changes to revenue recognition “will require substantial effort and investment ...” This reflects their view that AASB 10XX and the implementation guidance for AASB 15 are expected to substantially change revenue recognition by NFP entities, particularly for grants and licence fees. However, the transition provisions in AASB 15 and proposed for AASB 10XX would permit application of the new requirements only from the start of the current period in which the Standards are first applied (thus not requiring the restatement of comparatives) and would also permit no change to the existing accounting for completed contracts or transactions. Under these approaches, new accounting policies to address income recognition would be required only for new transactions from the start of the current period and any “uncompleted” contracts and transactions.
- 24 A Project Advisory Panel member indicated that major system changes were required for educational institutions to prepare for accounting for grants and endowments under AASB 15 or AASB 10XX, as well as the effort required to identify performance obligations. The panel member expressed the view that the implementation guidance for AASB 15 was essential to assist NFP entities (private or public sector) to

understand the accounting that would be required for grants and endowments, and therefore a deferral of both AASB 15 and AASB 10XX was necessary.

#### *Transitional provisions*

- 25 Deferral would affect potential transitional provisions relating to leases, such as the approach to leases with below-market terms and conditions, which may be relevant to NFP entities in either the public sector or the private sector. As AASB 16 *Leases* applies from 1 January 2019, applying AASB 10XX from 1 January 2018 would mean that transitional provisions would be needed to address the interaction of AASB 10XX with AASB 117 *Leases*, and then the transition to AASB 16 while applying AASB 10XX. (Other Board agenda papers address the detail of lease transition issues.)
- 26 Deferring AASB 10XX for all NFP entities to 1 January 2019 would mean that transitional provisions (in relation to mandatory application) would not have to address the interaction of AASB 10XX and AASB 117. Instead, the transition to both AASB 10XX and AASB 16 would occur at the same time. This would simplify the transitional provisions required in respect of mandatory application of the Standards.
- 27 However, an issue that would need to be considered is whether the AASB 10XX/AASB 117 interaction should be addressed for NFP entities early adopting a deferred AASB 10XX. If so, the same transitional provisions as relevant to a 2018 effective date for AASB 10XX could apply only to early adopters.

#### *Precedent – AASB 10 deferral for NFP entities*

- 28 AASB 10 *Consolidated Financial Statements* was issued in August 2011, with an effective date of 1 January 2013 for all entities. NFP implementation guidance was proposed to be prepared to support NFP entity application at that date. However, late in 2012, the effective date was deferred for one year for all NFP entities as the implementation guidance had not been finalised. This acknowledged that the new definition of “control” represented a significant change from the previous approach, and that there were major issues for the NFP sector in applying that new definition. AASB 10 originally prohibited even early application by NFP entities.
- 29 This deferral of AASB 10 (and four related Standards) resulted in users of the Standards having to deal with different for-profit (FP) and NFP versions of twenty Standards and four Interpretations that were affected by the consequential amendments arising from AASB 10. The deferral created significant work for AASB staff in preparing the different FP and NFP versions, and in ensuring that subsequent amendments applying during the deferral period addressed the variations in wording between FP and NFP versions.
- 30 A deferral of AASB 15 would create these same FP v NFP issues for nineteen Standards and six Interpretations affected by the consequential amendments arising from AASB 15.<sup>3</sup> Deferring only AASB 10XX and the implementation guidance does not have such effects.

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3 The consequential amendments were made in AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*.

### Which entities?

- 31 A deferral could be applied only to NFP public sector entities, or else to both NFP public sector and private sector entities. Specific reasons have been noted for deferral for NFP public sector entities (principally the budgeting process) and for NFP private sector entities (accounting for grants and endowments). A general reason of inadequate lead time given that AASB 10XX and the implementation guidance have not yet been finalised would apply to both groups of entities.
- 32 The AASB's policy on modifications to Standards does permit different treatments for public sector entities versus private sector entities, if justified. So it is possible to defer requirements for NFP public sector entities with no deferral for NFP private sector entities.
- 33 Deferral only for NFP public sector entities would create some complexity with transitional provisions. That is, the interaction between AASB 10XX and AASB 117 in relation to leases with below-market terms and conditions would be relevant to NFP private sector entities as at 1 January 2018 and to NFP public sector entities only on early adoption of AASB 10XX before 1 January 2019.

### What deferral period?

- 34 Applying new Standards up to a year earlier through the budgeting process would mean that public sector entities would need a one-year deferral in their effective date in order to have the same lead-time as private sector entities in adopting any new Standards. HoTARAC has requested a one-year deferral for public sector and other NFP reporting entities. A one-year deferral would make the effective date for affected entities periods beginning on or after 1 January 2019. This typically would mean initial application for the 2019/20 financial year.
- 35 No particular reasons for a longer deferral period have been noted.
- 36 A shorter deferral period would not be helpful. For example, a six-month deferral to periods beginning on or after 1 July 2018 would mean application to the 2018/19 financial year, which is the same general application under the planned effective date of 1 January 2018.

### **Staff recommendations**

- 37 Staff recommend the partial deferral approach – deferring the application of AASB 10XX and the implementation guidance for AASB 15, and amending AASB 15 to limit its application by NFP entities to transactions within the scope of AASB 118 until AASB 10XX and the related guidance are mandatory – for both NFP public sector entities and NFP private sector entities, with a one-year deferral to 1 January 2019.

### **Questions for the Board**

- Q1 Do Board members agree with the staff recommendations?
- Q2 If not, is the full deferral approach or some other deferral appropriate?