



Project:	Implementation Guidance for NFP Public Sector Licensors	Meeting:	M165
Topic:	Recommendations on progressing ED 283	Agenda Item:	4.1
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		Decision-Making:	High
		Project Status:	Re-deliberations

OBJECTIVE OF THIS PAPER

- 1 The objective of this paper is for the Board to decide how to progress AASB Exposure Draft ED 283 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors*, based on the responses received.

ATTACHMENTS

- 4.2 Full written submissions received on ED 283 (comprises of seven documents)
- 4.3 For noting: ED 283 Amendments to Australian Accounting Standards – Australian Implementation Guidance for NFP Public Sector Licensors

STRUCTURE

- 2 This Staff Paper is set out as follows:
 - (a) Background (paragraphs 3-5)
 - (b) Summary of Staff recommendations (paragraph 7)
 - (c) Summary of written responses for each SMC ([Appendix A](#))
 - (d) Analyses of specific issues ([Appendices B-H](#))
 - (e) Other recommendations including editorial changes ([Appendix I](#))
 - (f) Full log of comments and Staff recommendations ([Appendix J](#))

BACKGROUND

- 3 ED 283¹, issued in December 2017, proposes amendments to AASB 15 *Revenue from Contracts with Customers* to add requirements and authoritative implementation guidance for application by not-for-profit (NFP) public sector licensors to transactions involving the issue of licences.
- 4 The comment period for ED 283 closed on 31 March 2018 and the aim is to finalise the proposals in time for when AASB 15 would apply to NFP entities, which is for reporting periods beginning on or after 1 January 2019.
- 5 Staff previously presented a summary of responses to ED 283 at the May 2018 meeting². For the Board's reference, Staff have included the summary of comments provided to the Board in May 2018 as [Appendix J: Full log of comments and cross reference to Staff recommendations](#) to this paper. Individual submissions have also been included as an attachment to this Staff paper (refer Agenda paper 4.2 Full written submissions received on ED 283 - comprises of seven documents)

SUMMARY OF STAFF RECOMMENDATIONS

- 6 The following table was presented to the Board in May 2018 highlighting the key issues the Staff had identified in relation to ED 283. The right hand column has now been updated to include the Staff recommendations in response to the comments received.
- 7 Detailed Staff analysis of the key issues outlined in the table are provided in [Appendices B-H](#) of this Staff paper.
- 8 In addition, there are some other minor issues raised in the submissions that Staff have detailed in [Appendix I](#) of this Staff paper.

2 See [Agenda Paper 5.1](#) from the May 2018 AASB Meeting.

Table 1: Staff recommendations to key issues identified

Respondent comment	Summary of Staff recommendation
<p>Issue 1: The outcome of applying AASB 15 principles to non-IP licences</p> <p>In relation to the accounting for non-IP licences, the majority of respondents agree that revenue from such licences should be accounted for in accordance with the general principles of AASB 15. However, despite support in principle, numerous respondents raised concern with the outcomes of the accounting under AASB 15, in particular for high-value and long-term licences such as casino licences. Respondents noted that some activities which extend beyond just maintaining exclusivity of the licence, such as periodically monitoring whether the terms of an arrangement are being met and upholding the integrity of the licence are not just features of a licence, but are in fact performance obligations that enhance the commerciality of the arrangements. These respondents note that without the active involvement of the licensor (for example the State government) in these activities, there is a risk that the commercial value of the arrangement will not be upheld, potentially exposing the licensor to legal action from the licensee. Respondents note that the licensor’s activities:</p> <p>(a) serve to maintain confidence in the services, systems and operations of the licensee, upon which the commerciality of the arrangement is underpinned; and</p> <p>(b) if not performed would substantially detract from the commerciality of the arrangement.</p> <p>Respondents’ request that the Board clarify in the guidance whether these would in fact be distinct performance obligations that would likely result in revenue being recognised over time for these types of performance obligations, rather than at a point in time upon granting of the licence, noting that the current guidance is not worded in such a way.</p> <p>See App J, SMC 3(b) for more detail</p>	<p>Refer to Appendix B: Analysis of issue 1 – Applying AASB 15 principles to non-IP licences</p> <ul style="list-style-type: none"> • Question 1 to the Board: Does the Board agree with Staff’s recommendation to adopt Approach 1 (i.e. to remain with the principles of AASB 15 and expanding Example 8 in the next draft of the Standard to include ‘activities’ that a public sector licensor might provide that could be considered as performance obligations as per the requirements in AASB 15)?
<p>Issue 2: Licences vs taxes</p> <p>Respondents raised the following issues in relation to licences versus taxes:</p> <p>(a) some respondents recommend aligning the distinction between a licence and tax more closely with the definitions of the Australian Bureau of Statistic’s Government Finance Statistics Manual (used by some public sector entities for reporting macroeconomic statistics) to allow for the harmonisation of the two frameworks;</p> <p>(b) one respondent considered that all non-IP licences should be accounted for in accordance with AASB 1058;</p> <p>(c) some respondents raised concerns with the proposal to allocate the transaction wholly to the promise to grant licence where the arrangement has a dual purpose of granting a licence and imposing a tax (ED 283 paragraphs G4-G5³). The respondents are especially concerned with the practical consequences when having to account for the variable consideration, noting that it is possible for an arrangement to demonstrate both elements of licensing and taxation; and</p> <p>(d) some respondents requested clarifications on the guidance in paragraph G3 to distinguish licences from taxes, especially in relation to the notion of compulsory vs discretionary.</p> <p>See App J, SMC 7 for more detail</p>	<p>Refer to Appendix C: Analysis of issues 2 and 8: Licences versus taxes and variable consideration</p> <ul style="list-style-type: none"> • Question 2 to the Board: Do Board member agree with Staff recommendations to clarify the features as outlined in paragraph G3 of ED 283 on licences versus taxes as described in paragraph C13? • Question 3 to the Board: Do Board member agree to the Staff recommendation to apply AASB 15 paragraphs B63-B63B to account for variable consideration from all licences issued by public sector licensors subject to feedback from users of public sector reporting that the likely outcomes would be useful

3 AASB ED 283 paragraph G4 states ‘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 rebuttable presumption is for the not-for-profit public sector entity to allocate the transaction price wholly to the promise to grant a licence.’

AASB ED 283 paragraph G5 states ‘The presumption is rebutted where the transaction price is partially refundable in the event the entity does not grant the licence.’

Table 2: Staff recommendations to other issues identified

Respondent comment	Summary of Staff recommendation
<p>Issue 3: Guidance in relation to recognition exemptions for short-term and low-value licences</p> <p>The majority of respondents support the AASB providing recognition exemptions for short-term and low-value licences. However, several respondents requested the Board provide more guidance and examples on:</p> <p>(a) what the Board means by 'short-term' (ie providing a time threshold) and 'low-value' (ie providing a monetary threshold, or provide more examples);</p> <p>(b) whether the Board intended for the exemption to apply to licences only when they are both short-term <u>and</u> low-value; and</p> <p>(c) whether the exemptions are appropriate for some low value licences that have a high volume of transactions, meaning the revenue is material.</p> <p>See App J, SMC 4 for more detail</p>	<p>Refer to Appendix D: Analysis of issue 3 – Guidance in relation to recognition exemptions for short term and low-value licences</p> <ul style="list-style-type: none"> • Question 4 to the Board: Do Board member agree with Staff's recommendation to define a short-term licence within AASB 15 as 'a licence that, at the commencement date, has a licence term of 12 months or less'? • Question 5 to the Board: Do Board member agree with Staff's recommendation to include within the Basis for Conclusions to the final Standard clarification of the Board's intention for the practical expedients in AASB 15 to be consistent with those in AASB 16 by reference to paragraphs BC98-BC104 in AASB 16? • Question 6 to the Board: Does the Board agree with Staff's recommendations not to amend the wording within ED 283 paragraph Aus8.1 with respect to the practical expedients?
<p>Issue 4: Examples of types of IP licences</p> <p>Due to the minimal guidance available on what constitutes an IP licence in AASB 15, some respondents request that the Board provide specific examples of IP licences that would be unique to the public sector.</p> <p>See App J, SMC 6 for more detail</p>	<p>Refer to Appendix E: Analysis of issue 4 – Examples of types of IP licences</p> <ul style="list-style-type: none"> • Question 7 to the Board: Does the Board agree with Staff's recommendation to conduct further research to find out more about the types of IP licences issued in the public sector and add specific examples of public sector IP licences, if they are different to the examples currently provided in AASB 15?
<p>Issue 5: Example of whether a licence is distinct</p> <p>A number of respondents disagreed with the Board's analysis that a commercial fishing licence is not distinct from other goods or services (i.e. the fish). These respondents were of the view that a public sector entity was not promising to transfer fish, but rather provide a right to perform an activity (fishing).</p> <p>See App J, SMC 6 for more detail</p>	<p>Refer to Appendix F: Analysis of issue 5 – Example of whether a licence is distinct</p> <ul style="list-style-type: none"> • Question 8 to the Board: Does the Board agree with Staff's recommendations to further clarify why the commercial fishing example in paragraph G15 of ED 283 is an example of a licence that is not distinct from other goods or services in the contract (as detailed in paragraph Error! Reference source not found.) and to provide an explanation of take or pay' arrangements in paragraph G16 of the next draft of the Standard?
<p>Issue 6: Non-IP licences issued by FP public sector entities</p> <p>Some respondents noted that a number of for-profit public sector entities have issued non-IP licences which are similar in nature to those issued by the NFP public sector entities. The respondents who noted these arrangements support expanding the scope of the project to include both NFP and FP public sector entities, noting this would enhance the application and comparability within and across government sectors</p> <p>See App J SMC 8 for more detail</p>	<p>Refer to Appendix G: Analysis of issue 6 – Non-IP licences issued by FP public sector entities</p> <ul style="list-style-type: none"> • Question 9 to the Board: Does the Board agree with Staff's recommendation to expand the scope of the project to include for-profit public sector entities, making the overall project applicable to all public sector entities? Or does the Board want Staff to conduct further outreach with entities in the FP public sector to assess the materiality of these licences for these entities and the implications of non-compliance with IFRS for these entities?

Respondent comment	Summary of Staff recommendation
<p>Issue 7: Licences involving non-identified assets of the licensor</p> <p>Some respondents noted example of non-IP licences involving the non-identified assets of the public sector, such as mooring fees, road occupancy licences and aquatic licences.</p> <p>See App J, SMC 6 for more detail</p>	<p>Refer to Appendix H: Analysis of issue 7 – Licences involving non-identified assets of the licensor</p> <ul style="list-style-type: none"> • Question 10 to the Board: Does the Board agree with Staff’s recommendation to require licensors of non-IP licences involving a non-identified asset of the licensor to account for such licences using the general principles of AASB 15 and guidance provided by the AASB in ED 283 (consistent with treatment of other non-IP licences)?
<p>Issue 8: Variable consideration</p> <p>Some respondents noted difficulties in estimating sales-based or usage-based revenue for non-IP licences that are recognised at a point in time, due to external considerations that are beyond the entities’ control. However, other entities supported the transaction neutrality in applying the general principles of AASB 15 as proposed in ED 283.</p> <p>See App J, SMC 5 for more detail</p>	<p>Refer to Appendix C: Analysis of issues 2 and 8: Licences versus taxes and variable consideration</p> <p>Recommendations covered within Issue 2 above.</p>
<p>Other recommendations</p> <ul style="list-style-type: none"> • Scoping of licences • Additional guidance on terms used • Editorial recommendations <p>Refer to App J, ‘33 Other comments’ for more details</p>	<p>Refer to Appendix I: Other recommendations including editorial changes</p> <ul style="list-style-type: none"> • Question 11 to the Board: Does the Board agree with Staff’s recommendation to amend Aus5.2 (as detailed above) to clarify that taxes are subject to AASB 1058 <i>Income of Not-for-Profit Entities</i>? • Question 12 to the Board: Does the Board agree with Staff’s recommendation that further guidance in relation to ‘rights over the licensor’s identified assets’, ‘right to perform an activity’, ‘right to use’ and ‘right to access’, is not necessary as there is sufficient guidance within in AASB 15 and ED 283. • Question 13 to the Board: Does the Board agree that Staff will address editorial matters as part of redrafting?

Appendix A: Summary of written responses for each question

Legend (shading)	
Green = Respondent agrees	Amber = Respondent neither completely agrees or disagrees <u>or</u> more clarification required
Pink = Respondent disagrees	Grey = Respondent providing example (neither agrees or disagrees)

	S1 – KPMG	S2 – EY	S3 – Audit offices (Vic, NSW, WA,NT, Qld)	S4 – Audit Offices (SA & TAS)	S5 – HoTARAC	S6 – AHPRA	S7 – ABS
<u>SMC 1 (AASB 15 scope to include non-contractual)</u>	Agree	Agree	Agree	Disagree with non-IP licences in AASB 15 – should be AASB 1058	All but one jurisdiction agrees	No comment	No comment
<u>SMC 2 (statutory lease arrangements)</u>	None noted	None noted	None noted	None noted	Port of Melbourne transaction	No comment	No comment
<u>SMC 3 (a) IP licences to apply AASB 15 B52-B63B</u>	Agree	Agree	Agree with more guidance (for eg how to account for access to data registries)	Agree	All but one jurisdiction agrees – the jurisdiction that disagrees says licences should be in scope of AASB 1058	No comment	No comment
<u>SMC 3 (b) Non-IP licences (distinct & non-leases) to apply AASB 15 as separate PO</u>	Agree	Disagree with outcome of point in time recognition as it doesn't reflect economic substance	Disagree with outcome of point in time recognition for casino examples incl. exclusivity, distinct – fishing)	Disagree that non-IP licences should be accounted for in AASB 15 instead of AASB 1058	All but one jurisdiction agrees with AASB 15 but with more guidance, also they disagree with commercial fishing example)	Further guidance required over PO to benefit public	Disagree with treatment of casino – view licence as tax
<u>SMC 4 Practical expedients faithful representation</u>	Agree with more guidance on what short-term and low-value is	Agree with more guidance; applies to IP and non-IP?	Agree with more guidance on what short-term and low-value is	Agree with more guidance and should be low value OR short term	Disagree – could lead to inconsistency although consistent with current – make requirements narrower	Agree with more guidance	No comment
<u>SMC 5 Sales-based commission (variable consideration per AASB 15.56-67 or AASB 15.B63)</u>	Agree – with AASB 15.56-67	Agree – with AASB 15.56-67	Disagree – apply AASB 15.B63 otherwise add more guidance	Disagree – apply AASB 15.B63	Prefer AASB 15.56-67. Not aware of variable consideration in jurisdictions – royalties are separate transaction	No comment	No comment
<u>SMC 6 Non-IP licences involving asset of licensor that are not leases</u>	Casino / lottery licences	Access to data registries	Access to data registries	Access to data registries	Clarification of asset on or off balance sheet (e.g. mooring fees, road occupancy, aquatic licence)	No comment	No comment
<u>SMC 7 Licence versus tax</u>	Agree	Disagree – revisit guidance to distinguish licence from tax	Agree with more guidance and reconsider split	Disagree - revisit guidance to distinguish licence from tax	Disagree – revisit with consideration of GFS	No comment	Disagree – revisit GFS definition
<u>SMC 8 For-profit public sector licensors (PSLs)</u>	Extend scope to for-profit PSLs	Not aware of for-profit PSLs	Extend scope to for-profit PSLs	Extend scope to for-profit PSLs	Not aware of for-profit PSLs	No comment	No comment

	S1 – KPMG	S2 – EY	S3 – Audit offices (Vic, NSW, WA,NT, Qld)	S4 – Audit Offices (SA & TAS)	S5 – HoTARAC	S6 – AHPRA	S7 – ABS
	S1 – KPMG	S2 – EY	S3 – Audit offices (Vic, NSW, WA,NT, Qld)	S4 – Audit Offices (SA & TAS)	S5 – HoTARAC	S6 – AHPRA	S7 – ABS
<u>GMC 9 NFP Standard-setting framework followed</u>	Agree	Disagree applying it as it is not yet finalised	Agree	Agree	Agree	No comment	No comment
<u>GMC 10 Reg issues (i.e. GFS)</u>	None noted	None noted	None noted	None noted	Consider aligning with GFS	No comment	No comment
<u>GMC 11 FS that are useful</u>	Agree	Agree except for high-value/long term licences	Agree	Disagree – too much uncertainty, costly etc	Except for what noted in SMC 3	Seeking further guidance	No comment
<u>GMC 12 Best interest economy</u>	No comment	As above GMC 11	Except for what noted in SMC 3	No comment	No comment	No comment	No comment
<u>GMC 13 Additional comments / Additional Comments</u>	No additional comments	Consider consistency with AASB 1059 for similar arrangements	Additional comments from QAO (see appendix D)	No additional comments	Additional comments on activities performed by PSLs	No comment	No comment

Appendix B: Analysis of issue 1 – Applying AASB 15 principles to non-IP licences

- B1 In relation to the accounting for non-IP licences, the majority of respondents agreed that such licences should be accounted for as a separate performance obligation in accordance with the general principles of AASB 15. However, despite support in principle, numerous respondents raised concern with the outcomes of this accounting, in particular for high-value and long-term licences such as casino licences.
- B2 Respondents noted that some activities performed by licensors extend beyond just maintaining exclusivity of the licence. For example, in the case of a casino or gaming licence, periodic monitoring undertaken by the licensor to ensure the terms of a licensing arrangement are being met, such as ensuring licensees, and their employees, are of good character (in essence to prevent infiltration by organised crime) and ongoing monitoring of casinos to ensure games offered are fair (i.e. inspecting gaming machines to ensure they are not rigged and that the actual chance of winning (or the payout ratio) meets the requirements of regulations, or matches the advertised rate) are not just features of a licence, but are in fact performance obligations that enhance the commerciality of the agreement.
- B3 Some of the respondents noted, in separate discussions with AASB staff, that if these activities were not performed by the licensor, the licensee would engage a third-party provider to perform these activities to ensure continued patronage at the casinos (i.e. patrons would not wish to gamble in casinos where these “security and integrity related” activities are not performed). As such, these activities have been explicitly included within licensing arrangements and licensors are obliged to undertake these activities throughout the term of the licence and could face legal ramifications if these activities are not performed.
- B4 Respondents requested that the Board clarify in the guidance whether these activities would in fact be distinct performance obligations resulting in revenue being allocated to these performance obligations and recognised as these performance obligations are satisfied over time, rather than at a point in time, noting that the guidance provided in ED 283 was not worded in such a way.
- B5 Staff have identified two approaches that the Board could take with respect to the issues raised in paragraphs B1-B4:
- (a) Approach 1: remain with the principles of AASB 15 and expand the illustrative examples on accounting for high value and long-term licences public sector licences to include ‘activities’ undertaken by a public sector licensor that could be performance obligations (Staff recommendation).
 - (b) Approach 2: depart from the principles of AASB 15 and provide specific requirements on accounting for revenue from licences issued by public sector licensors.

These approaches are detailed below.

Approach 1: remain with the principles of AASB 15 and expand the illustrative examples on accounting for high value and long-term licences public sector licences to include ‘activities’ undertaken by a public sector licensor that could be performance obligations

Revenue attributable to activities undertaken by the licensor to service and support the licensing arrangement to benefit the licensee and the general public

- B6 Based on the feedback received, some constituents consider that certain activities performed by licensors such as providing monitoring, auditing and investigations compliance activities related to the licencing arrangement are of significant benefit to the licensee (in addition to the general public) and would be considered distinct performance obligations in accordance with AASB 15 paragraph 27⁴. Many of these activities appear to be substantive and considerably enhance the commerciality of the licensing arrangement. For example, where a public sector licensor grants a casino licence and provides services to ensure the integrity and reliability of the casino operations, performs audits over the quality of gaming machines etc., the licensee benefits by way of increased customer confidence, making the casino licence more commercially valuable to the licensee.
- B7 Staff consider key indicators that a public sector licensor is providing services that are distinct performance obligations would be whether:
- (a) in the absence of the public sector licensor providing such services, the licensee would likely engage a third party to provide such services and expect a comparable outcome in terms of customer confidence (i.e. this is an indicator that the customer can benefit from the service on its own or together with other resources readily available, and is separately identifiable.) For example, this might be where a licensee would employ a third party to undertake integrity inspections on casino floors in lieu of the public sector licensor providing such services; and
 - (b) those services are agreed-upon tasks for the licensee stipulated in the licensing arrangement (paragraph 26(d) of AASB 15).
- B8 A hypothetical example where Staff consider such activities might satisfy AASB 15 paragraph 27² (and therefore could be accounted for as a separate performance obligation) is where the:
- (a) licensee directly benefits from the service of the public sector licensor (for example, in a casino licence, the licensor inspecting that licenced table games in a casino are being operated according to the terms of the licence, which on its own could increase consumer confidence and result in more patrons coming to the casino) (AASB 15.27(a)); and
 - (b) licensor’s promise to provide this service to the customer is specified in the licencing agreement, which also notes that legal recourse would occur where the activity is not performed by the licensor (AASB 15.27(b)).

⁴ AASB 15 paragraph 27 states:

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or services is distinct within the context of the contract).

Revenue attributable to activities undertaken by the licensor to grant an exclusive licence to the licensee

- B9 Staff maintain that activities undertaken by the licensor to protect the licensee's rights (i.e. exclusivity) (for example, agreeing not to issue other casino licences within a certain jurisdiction) are attributes of the promised licence, rather than define whether the entity satisfies its performance obligation at a point in time or over time (refer to paragraph B62 of AASB 15). This is consistent with AASB 16, where continuing to provide a leased asset, is not regarded as a performance obligation. This is also consistent with the general guidance in AASB 15.
- B10 Further to this, as noted in the Basis for Conclusions (BC) to AASB 15 paragraph BC412(b), the IASB and FASB proposed to distinguish whether a licence should be recognised at a point in time or over time based on whether the licence was exclusive. However, the Boards decided against this approach as it was inconsistent with the control principle, because exclusivity does not affect the determination of the entity's performance. The IASB and FASB also observed that exclusivity is a restriction that represents an attribute of the asset transferred, rather than the nature of the entity's promise in granting the licence.

Staff recommendation

- B11 Staff observe that most respondents to ED 283 were concerned with perceived counter-intuitive accounting outcomes of applying the principles of AASB 15 to casino or gaming licences. Example 8 in ED 283 provided a fact pattern whereby the activities performed by the licensor protected the exclusivity of the arrangement and indicated that monitoring and oversight activities performed by Licensor over the licence period were performed to protect the public and not to benefit Licensee.
- B12 Based on feedback received to ED 283, staff note that some might read the examples too literally to mean that there are no activities that the licensor performs that could be considered performance obligations. Staff consider that it might be helpful to include an example where the activities conducted by a public sector licensor would be 'performance obligations' under AASB 15. For example, a licensor within a casino licensing arrangement might carry out certain activities to deliver specific services to the licensee rather than just performing regulatory activities to benefit the general public. In these cases, the licensing arrangement might contain separate performance obligations of the licensor as outlined below:
- (a) granting the licensee a right to perform an activity (i.e. the casino licence); and
 - (b) performing services specified in the licencing arrangement for the licensee, such as conducting ongoing monitoring activities of gaming machines, which lead to increased customer confidence and arguably brings in more customers for the licensee. These could be considered separate 'performance obligations' if, in the absence of the public sector licensor providing such services, the licensee would engage a third party to provide such services.
- B13 In the above scenario, it could be argued that the transaction price of such arrangements be allocated separately to the 'right to perform' performance obligation and the 'services' performance obligation using the general requirements in AASB 15 on allocating the transaction price to performance obligations⁵.

5 AASB 15 paragraphs 73-90 require the transaction price to be allocated to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. This includes guidance on different methods to assist entities in calculating the stand-alone price of each performance obligation.

- B14 Staff recommend that Example 8 in the next draft of the Standard is expanded to illustrate such arrangements, including the types of activities that might be considered ‘performance obligations’.
- B15 Staff acknowledge that providing such illustration on ‘services’ type performance obligations as discussed above could be inappropriately applied to recognise ‘regulatory’ type activities that public sector entities carry out to benefit the public in general as performance obligations to a licensee/customer, resulting in revenue/income from arrangements with these activities being recognised over time (i.e. when these ‘activities’ are performed). To mitigate this, Staff recommend specifying (in the explanation of the illustrative example) that the requirements in AASB 15 should be met for the ‘activities’ performed by a licensor to be considered as distinct ‘services’ to the licensee (i.e. the ‘activities’ are distinct services to the licensee).

Approach 2: depart from the principles of AASB 15 and provide specific requirements on accounting for revenue from licences issued by public sector licensors

- B16 Some respondents (S2 – EY, S3 – Audit offices (Vic, NSW, WA, NT, Qld), S5 – HoTARAC and S6 – AHPRA) suggested that applying AASB 15 to certain public sector licences (such as casino licences) appears to result in counter-intuitive accounting outcomes (such as upfront revenue recognition). More specifically, in the view of some respondents, the accounting treatment in accordance with AASB 15 does not reflect the way the revenue stream from certain licences is viewed, and does not depict the economic substance of the revenue received. Such respondents argue that the commercial value of such licences are enhanced by the public sector licensor’s performance of various activities throughout the licensing period, and as such, up front revenue recognition does not reflect the ongoing substance of the arrangement.
- B17 Based on the above, Staff explored accounting treatment of similar transactions covered as part of the Service Concession Arrangements Project.

Service Concession Arrangements Project

- B18 Staff have considered the precedent set by the ‘grant of a right to the operator’ (GORTO) model in AASB 1059 *Service Concession Arrangements: Grantors*. In developing the GORTO model, the Board considered whether to apply AASB 15 by analogy (either via the licencing guidance or otherwise) to service concession arrangements. However, the Board decided against this, as it was concerned that revenue would often be recognised at a point in time, and did not believe that this accurately depicted the economics of the arrangement.
- B19 The reasons for this are set out in paragraph BC78 of AASB 1059. In a service concession arrangement, the grantor makes promises, either explicitly or implicitly, to undertake activities in relation to the service concession asset that will benefit the operator. This reflects the fact that a service concession asset **is controlled and managed by the grantor to provide public services**. The Board acknowledged that the grantor’s promise, or the operator’s expectation, that the grantor will undertake activities that benefit the operator may in some instances be comparable to promises made by a licensor or expectations of a licensee that the licensor will undertake activities in relation to intellectual property that will benefit the licensee. The Board observed that determining whether an arrangement was a right-of-use or right-of-access would require significant judgement, and would sometimes lead to arrangements being accounted for differently. The Board preferred all service concession arrangements be accounted for the same, as it did not believe service concession arrangements were different in substance. As noted in the Action Alert to the December 2014 AASB Meeting, the Board was also persuaded by the fact that the grantor would be obligated to undertake various activities over the term of the service concession arrangement. The corresponding Staff paper (7.2) notes such activities including the

following activities that Staff consider are similar to activities of a public sector issuing a non-IP licence:

Public sector obligations in Service Concession Arrangements	Similarity to non-IP licences
The public sector entity may be obliged to assist the private sector entity identify non-paying vehicles and in the collections of non-payment toll fares (monitoring activities)	This example is similar to a public sector licensor assisting the private sector licensee to determine that there is no illegal gaming.
The public sector entity may be obliged to, for example, renegotiate the term of the arrangement, the toll price and/or its financial or operational contribution to the arrangement, if the public sector entity undertakes activities that would cause material adverse effects on the private sector entity's collection of toll revenue, or the repayment of/on capital and debt issues. Examples of activities that would cause material adverse effects include implementing 'competing road projects' and interrupting traffic connections to the private sector entity's motorway.	This example is similar to licensing arrangements where the public sector licensor is subject to legal recourse if they undertake activities to undermine the licensing arrangement (for example if the licensor issued another casino licence allowing another private sector entity to compete in the same geographical area).

- B20 One respondent (S2 – EY) to ED 283 noted that even though two arrangements maybe very similar in nature, one being a licence and the other being a SCA, the accounting outcome of applying AASB 15 would be significantly different (i.e. point-in-time revenue recognition for AASB 15 compared to over time revenue recognition in AASB 1059) by virtue of the licence not meeting the scoping requirements of AASB 1059.
- B21 For example, under AASB 1059, where a private sector operator constructs an asset for a public sector grantor and receives the right to charge users (i.e. a licence to charge users) then the GORTO model applies and revenue would be deferred (i.e. a non-financial liability is recognised which is amortised and revenue recognised over the term of the arrangement). On the other hand, where an arrangement falls out of scope of AASB 1059, but is considered to fall within the scope of AASB 15, it may be considered that the promise to transfer to the right to charge users (i.e. the non-IP licence) is satisfied once the asset is constructed and all revenue would be required to be recognised at that time.
- B22 AASB 1059 might be considered to have set a precedent for the Board to recognise arrangements that contain substantive monitoring and related activities of a public sector licensor over time rather than at a point in time. This treatment may be justifiable under *The AASB's Standard-Setting Framework for Not-for-Profit Entities* for the following reasons (as outlined in paragraph 28(c) and 28(g) of the NFP Standard Setting Framework):
- (a) the number and magnitude of non-IP licences in the public sector that contain requirements for public sector licensors to perform activities which might not generally be considered performance obligations, results in accounting outcomes that do not reflect the economic reality of the arrangements; and
 - (b) applying AASB 15 to similar transactions to those captured by AASB 1059 results in inconsistent accounting outcomes between the two Standards.

B23 However, Staff do not recommend the Board adopt Approach 2 as, whilst there are similarities to service concession arrangements and licensing arrangements issued by public sector licensors, a fundamental difference in service concession arrangements is the public sector grantor capitalises an asset as part of those arrangements whereas in licensing arrangements, the asset giving rise to the licence is, in most cases, not recognised by the licensor. Also, for service concession arrangements, the Board considered that recognising revenue immediately (rather than a liability) on a service concession asset (that was recognised in the grantor's books at fair value of current replacement costs) did not reflect the economic substance of the arrangement and would overstate current year financial performance and the financial position when the right to charge users of the asset has been transferred to the operator. This would not be the case for licensing arrangements as the licensor (grantor) would not be recognising the asset giving rise to the licence in its books at fair value. Accordingly, Staff do not consider it appropriate just to focus on one part of the service concession arrangement (i.e. the monitoring and related activities that the grantor of an SCA performs and the pattern of revenue recognition) to determine the outcome of licences, which are fundamentally different in the absence of an asset being recognised.

Approach 2 description

B24 If the Board chose to depart from the principles of AASB 15, the Board would have to decide how to allocate the revenue. Staff suggest the following methods of departing from the principles of AASB 15 could be considered, and have provided comments on each of the methods:

Revenue allocation	Staff comments
<p>Method A: Allocated revenue to the licensing arrangement on a systematic and rational basis using the straight-line method.</p>	<ul style="list-style-type: none"> • This would eliminate inconsistent accounting, but would not be consistent with the objective of the Board to develop principle-based Standards. • This method was not supported by the Board in the development of AASB 1059.
<p>Method B: Allocated revenue to the licensing arrangement based on the economic substance of the transaction (would require judgement by preparers).</p>	<ul style="list-style-type: none"> • This would retain somewhat of a principles-based approach. However, the Board would have to develop guidance to assist entities in assessing the economic substance of their licences to stop entities from developing divergent accounting practices. • This method is consistent with AASB 1059.

Impact of Approach 2 on other licences

B25 Staff consider that if the Board chose to move away from the principles of AASB 15, (e.g. by adopting either Method A or Method B described above) it would have to do so for all non-IP licences (i.e. not only casino/gaming licence), so that arrangements which are economically similar are treated as such.

Staff recommendation 1

B26 Staff recommend that the Board adopt Approach 1: remain with the principles of AASB 15 and provide explanation via Example 8 of the next draft of the Standard on identifying performance obligations. This is because Staff consider it possible to apply the main principles in AASB 15 and have accounting outcomes that reflect the economic substance of a licensing arrangement if applied consistently with more guidance and examples. Specifically, in the event the licensor is

performing activities (such as 'monitoring' and 'credibility related' services) to benefit the licensee in addition to providing the licence itself, Staff recommend that the transaction price of such arrangements be allocated to the 'right to perform' (granting the licence) performance obligation and the 'services' performance obligation using the general requirements in AASB 15 with revenue being recognised as the performance obligations are satisfied.

Question 1 to the Board: Does the Board agree with Staff's recommendation to adopt Approach 1 (i.e. to remain with the principles of AASB 15 and provide further explanation on identifying performance obligations in public sector Non-IP licences by expanding Example 8 in the next draft of the Standard)?

Appendix C: Analysis of issues 2 and 8: Licences versus taxes and variable consideration

- C1 Some respondents requested the Board clarify the distinction between a licence and tax. This included the Australian Bureau of Statistics (ABS), who requested the Board give further consideration to the definition of a licence used in the ABS Government Finance Statistics (GFS) Manual.

Licences versus taxes

Previous decisions by the Board

- C2 In the August 2017 AASB meeting, the Board considered agenda item 5.1⁶, which considered a number of different sources – including other Standard-setters, dictionaries and the ABS GFS manual – to help the Board distinguish between a tax and a licence. At this time, the Board was presented with the definition of a licence as follows:

“licences exist to provide a regulatory function for common activities undertaken by the general population. If the issue of such licences involves little or no work for the government, then the revenues raised are recovered as taxation revenue. However, if the government uses the issue of licences to exercise some sort of regulatory function, such as checking the competency or qualifications of a would-be licensee, then the revenues raised are recorded as administrative fees... unless they are clearly disproportionate to costs of providing the services...”

- C3 At this time, the Board decided that the ABS GFS manual would not be useful to make such a distinction, as the GFS definition:
- (a) describes the term ‘licence’ widely, and infers that although a variety of arrangements could constitute licences, revenue from some of these arrangements could be taxes or could be administration fees;
 - (b) states that licences exist to provide a regulatory function for common activities undertaken by the general population and suggests that the accounting for the revenue from licences (for example as taxes or administration fees) depends on the level of work involved for the government (i.e. the licensor) in the issuance of a licence;
 - (c) defines a tax differently from the definition of tax taken in AASB 1058 as it does not identify ‘compulsion’ or ‘purpose of establishment’ as a basis for distinguishing a tax from a licence; and
 - (d) adopts a licensor’s perspective in determining the economic substance of the transaction.

Further analysis in response to feedback received on ED 283

- C4 In addition to the definition of a licence, the ABS GFS Manual also notes in relation to taxes:

“Taxes are defined in paragraph 5.2 of the IMF GFSM 2014 as compulsory, unrequited amounts receivable by government units from institutional units, which may be receivable in cash or in kind. Taxation revenue is considered to be unrequited because

⁶ [Link to Staff Paper](#)

there is no clear and direct link between the payment of taxes by an individual or entity, and the provision of goods and services by government in exchange for the payment.”

C5 The ABS GFS Manual also states in relation to licences that:

“One of the regulatory functions of governments is to prohibit the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a licence or other certificate for which a fee is demanded”.

C6 Feedback on ED 283 from the ABS emphasised that the classification of a licence as a tax would usually only be the case for licences that have a cost **clearly disproportionate from the costs of the public sector licensor issuing such a licence**, for example taxi and gaming licences.

C7 Staff have included below a comparison of the features of a licence in ED 283 and the GFS definition:

AASB ED 283 Feature	Similar feature under GFS?	Comment
Discretionary arrangement	Yes	GFS uses the notion of compulsion in defining a tax, but not for licences.
Non-financial purpose (eg equitable allocation of a resource)	Yes	GFS states that licences exist to provide a regulatory function for common activities
Direct rights for a licensee, and could create direct obligations for a licensor	Yes	As noted above, the ABS GFS manual recognises that licences give specific permission to own or use certain goods or undertake certain activities.
Specific permission that must be obtained prior to performing an activity?	Yes	
Does not transfer control of a payee’s underlying asset	Yes	GFS refers to “common activities” which Staff take to imply that it is not the transfer of the control of an underlying assets.

C8 Paragraphs C4-C7 confirm to Staff that the only substantive difference between ABS’ view and that detailed in ED 283 is whether the cost of administrative activities is clearly out of proportion to the revenue received.

C9 Staff do not recommend adopting this aspect of the GFS definition given that this approach would not be consistent with the main principles in AASB 15 and instead be analogous to the licensor considering whether an arrangement is a reciprocal/non-reciprocal transaction, which the AASB has moved away from.

C10 As noted in the Basis for Conclusions to AASB 1058 (paragraph BC3), the Board observed determining whether a transaction was reciprocal or non-reciprocal in practice was not always straightforward. Entities found it challenging to determine whether approximately equal value had been provided in exchange to the other party or parties to the transfer, and contended that in many instances the immediate recognition of income in a non-reciprocal transaction did not faithfully represent the underlying financial performance of the entity. Diverse interpretations existed, with some entities recognising transactions with return obligations and specified performance outcomes as reciprocal transactions and some not. The Board has instead favoured the approach of identifying performance obligations.

- C11 Further to the above points, Staff note that based on the analysis in Staff Paper 5.2⁷ from the August 2017 AASB meeting, the Board concluded that revenue from non-IP licences would be accounted for in accordance with AASB 15.

Staff recommendation with respect to licences versus taxes

- C12 Despite not adopting the GFS classification of whether an arrangement is a licence or a tax, Staff recommend the Board clarify the features as outlined in paragraph G3 of ED 283 on licences versus taxes. This is because a number of respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices, S2 – EY) to ED 283 raised concerns with the guidance to distinguish a licence from a tax, in particular on the notion of whether an arrangement is discretionary or compulsory.
- C13 Below is an analysis of the feedback received on ED 283 and Staff recommendations based on the feedback received from respondents:

Responses	Staff recommendations
<p>Feature (a) in ED 283– Is the arrangement discretionary rather than compulsory?</p> <p>Three respondent (S3 – Audit Offices, S4 – SA and TAS Audit Offices, S2 – EY) requested further clarification of the terms ‘compulsory’ and ‘discretionary’, as, for example, some might consider a driver’s licence is compulsory (on the basis that a licence is required for you to drive legally), whilst others may consider a driver’s licence is discretionary (as no person is compelled to drive). One respondent (S4 – SA and TAS Audit Offices) noted that they reached the same conclusions without considering G3 (a), so suggests that it could be removed altogether.</p>	<p>This criterion appears to be the most problematic for constituents. The BC to ED 283 explained that an entity may be able to consider this based on the consequences of not obtaining a licence or evading a tax. In the former, an entity would pay a fine, but would not be required to obtain a licence retrospectively. In contrast, when evading a tax, an entity would pay the tax and pay a fine.</p> <p>Staff recommend that Feature (a) is amended to include further guidance on consequences of not obtaining a licence versus evading a tax as described in ED 283 paragraph BC19. Whilst Staff agree that entities could reach an appropriate outcome without considering this criterion, Staff note that it is a key criterion of the proposed guidance to distinguish a tax from a licence, and should be clarified.</p>
<p>Feature (b) – What is the primary purpose?</p> <p>One respondent (S2 – EY) questions whether this feature is helpful. The respondent considers that ultimately both taxes and licences are established to provide income to the government (although notes this is discussed at BC20).</p>	<p>As noted in BC20 of ED 283, the Board acknowledged that this feature may not be useful in all instances, but instead may be a useful indicator. This is reflected in ED 283 paragraph G3 which states ...‘These features are not an exhaustive list and not all features need to be present for an arrangement to be a licence’. Based on this, Staff do not recommend substantive changes to AASB Feature (b).</p>

⁷ [Link to Staff paper](#)

Responses	Staff recommendations
<p>Feature (c) – 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?</p> <p>One respondent (S2 – EY) consider this feature to be helpful in most occasions in making the distinction. However, not all licences may have “direct obligations of a payee”.</p>	<p>As noted above, ED 283 paragraph G3 states ...‘These features are not an exhaustive list and not all features need to be present for an arrangement to be a licence’. . Based on this, Staff do not recommend substantive changes to AASB Feature (c).</p>
<p>Feature (d) – 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?</p> <p>One respondent (S2 – EY) considers this to be the most relevant feature, but suggests referring to ‘a resource’ rather than ‘an asset’, so that unidentified resources are appropriately recognised.</p>	<p>Staff agree with the feedback provided by the responded.</p> <p>Staff recommend revising AASB Feature (d) to ‘Does the arrangement give the payer specific permission that must be obtained prior to performing an activity or using or accessing an asset a resource of the payee that would otherwise be unlawful?’</p>
<p>AASB Feature (e) – Does the arrangement transfer control of a payee’s underlying asset?</p> <p>One respondent (S2 – EY) notes that the relevance of this factor is not clear.</p>	<p>This feature may not be of relevance given non-IP licences currently issued by public sector licensors. However, it may be helpful in the future if there are new licences issued which involve transferring control of a payee’s underlying asset. As noted above, ED 283 paragraph G3 states ...‘These features are not an exhaustive list and not all features need to be present for an arrangement to be a licence’. . Based on this, Staff do not recommend substantive changes to AASB Feature (e).</p>
<p>Other feedback on the AASB’s tax versus licence feature</p> <p>One respondent (S2 – EY) suggests the Board also revise its definition of a tax in AASB 1058 <i>Income of Not-for-Profit Entities</i> to help distinguish between a tax and a licence.</p> <p>One respondent (S4 – SA and TAS Audit Offices) suggests that consistent terminology be used for the terms ‘payer’ and ‘payee’ throughout this section and the remainder of ED 283.</p>	<p>Staff do not recommend revising the definition of a tax in AASB 1058, as the Board has not received any feedback with respect to that Standard that the definition within AASB 1058 is problematic.</p> <p>However, with respect to the use of the terms ‘payer’ and ‘payee’ throughout ED 283, Staff recommends consistent terminology be used in the final Standard.</p>

Question 2 to the Board: Do Board member agree with Staff recommendations to clarify the features as outlined in paragraph G3 of ED 283 on licences versus taxes as described in paragraph C13?

Specifically, Staff recommend that:

- (a) AASB Feature (a) is amended to include further guidance on consequences of not obtaining a licence versus evading a tax as described in ED 283 paragraph BC19.**
- (b) AASB Feature (d) is amended to ‘Does the arrangement give the payer specific permission that must be obtained prior to performing an activity or using or accessing ~~an asset~~ a resource of the payee that would otherwise be unlawful?’**
- (c) The use of the terms ‘payer’ and ‘payee’ throughout ED 283 are amended to ensure consistent terminology is used throughout the final Standard.**

Licences that have both features of a tax and a licence

Analysis in response to feedback received on ED 283

- C14 One respondent (DTF SA) via informal discussions with AASB Staff raised concern over the Board’s proposal in (ED 283 paragraphs G4-G6)⁸ to require arrangements that relate to both a licence and a tax to be accounted for wholly as a licence, unless the portion that relates to the licence is fully refundable. This respondent noted that in their jurisdiction a variable amount is levied on the licensee under a separate agreement that is signed concurrently with the licencing agreement and hence is a separate tax, rather than variable consideration for the licencing arrangement. This respondent wanted the AASB to clarify in the guidance on accounting for revenue from licences that payments received as part of separate ‘tax’ agreements should be accounted for as ‘tax’ in accordance with AASB 1058 and not treated as ‘variable consideration’ arising from licencing arrangements.
- C15 The respondent that raised the above concern provided Staff with a specific casino licencing arrangement, with a separate ‘tax’ agreement, for consideration. In the example provided, the rate at which the licensee is ‘taxed’ is agreed between the licensor and licensee and is negotiated on a licence-by-licence basis, rather than being imposed as a state-wide or national taxation regime (i.e. it is an individually negotiated rate rather than a single rate applied to all parties entering into such arrangements within a certain jurisdiction).
- C16 Based on the above and in accordance with the requirements in AASB 15 paragraph 17⁹, Staff consider that, although there may be two agreements entered into by the licensor with the licensee (one for the licence and another labelled as ‘tax’), these agreements should be

⁸ ED 283 paragraph G4 states ‘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 rebuttable presumption is for the not-for-profit public sector entity to allocate the transaction price wholly to the promise to grant a licence.’

ED 283 paragraph G5 states ‘The presumption is rebutted where the transaction price is partially refundable in the event the entity does not grant the licence.’

ED 283 paragraph G6 states ‘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.’

⁹ AASB 15 paragraph 17 states ‘An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

- (a) the contracts are negotiated as a package with a single commercial objective;
- (b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- (c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with paragraphs 22–30.

combined and considered as one 'contract' or arrangement (i.e. licencing arrangement) if they are entered into at or near the same time with the same customer and negotiated as a package with a single commercial objective.

Accounting for variable consideration in a licencing arrangement

- C17 A specific matter for comment was included in ED 283 on whether the Board should require public sector non-IP licensors to apply the specific requirements in paragraphs B63-B63B¹⁰ in AASB 15, that apply to IP licences, in accounting for variable consideration, rather than the general requirements in AASB 15 paragraphs 50-59. Feedback from respondents on this question was mixed. A number of respondents supported the Board taking a transaction neutral approach to accounting for variable consideration (i.e. applying the general requirements in AASB 15). However many of these respondents also noted that they did not issue licences that involved variable consideration. In contrast, respondents that did issue licences with variable consideration noted the practical difficulties in applying the general requirements in AASB 15 (such as estimating the consideration and the significant adjustments that would be required) and therefore preferred applying the specific requirements in paragraphs B63-B63B for variable consideration of IP licences.
- C18 Staff observe that if paragraphs B63-B63B of AASB 15 were applied to account for variable consideration in licencing arrangements (irrespective of whether the licence was IP or non-IP), then the 'transaction neutrality' principle would still apply, arguably with more clarity, as variable consideration for both IP and non-IP licences would be accounted for in the same manner.

Staff recommendation with respect to variable consideration

- C19 Based in the above analysis, staff recommend applying the requirements in AASB 15 paragraphs B63-B63B (sales-based or usage-based royalties for IP licences) to accounting for revenue of all licences that have a variable consideration component. This would ensure that variable consideration is only accounted for when the later of the following events occurs:
- (a) the subsequent sale or usage occurs; or
 - (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).
- C20 Although this would mean departing from the general principles of AASB 15, Staff consider that this would still be a 'transaction neutral' approach as observed in paragraph C18 above. Staff also note that accounting for variable consideration from non-IP licences differently from how variable consideration from other revenue transactions are treated is acceptable, especially as

¹⁰ AASB 15 paragraph 63 states 'Notwithstanding the requirements in paragraphs 56–59, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

(a) the subsequent sale or usage occurs; and

(b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).'

AASB 15 paragraph B63A states 'The requirement for a sales-based or usage-based royalty in paragraph B63 applies when the royalty relates only to a licence of intellectual property or when a licence of intellectual property is the predominant item to which the royalty relates (for example, the licence of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).'

AASB 15 paragraph B63B states 'When the requirement in paragraph B63A is met, revenue from a sales-based or usage-based royalty shall be recognised wholly in accordance with paragraph B63. When the requirement in paragraph B63A is not met, the requirements on variable consideration in paragraphs 50–59 apply to the sales-based or usage-based royalty.'

the IASB and FASB have already set a precedent for this in terms of accounting for variable consideration of IP licences.

- C21 Specifically, the BC to AASB 15 notes that users and preparers of financial statements indicated, for IP licences, that it would not be useful for an entity to recognise a minimum amount of revenue. This is because that approach would inevitably have required the entity to report, throughout the life of the contract, significant adjustments to the amount of revenue recognised at inception of the contract as a result of changes in circumstances, even though those changes in circumstances are not related to the entity's performance. The boards observed that this would not result in relevant information, particularly in contracts in which the sales-based or usage-based royalty is paid over a long period of time. Staff consider, based on formal feedback and conversations with stakeholders, that these circumstances would not be unique to licences of IP, but also relevant to licences of non-IP in the public sector.
- C22 However, because AASB 15 was written from a private sector perspective, Staff suggest discussing this recommendation with public sector users to see if they too would not consider recognising a minimum amount of revenue (for the variable consideration) useful.
- C23 Subject to confirming the recommendation with public sector users, Staff consider departure from the general requirements of AASB 15 is justified under the Standard-Setting framework for the following reasons:
- (c) undue cost or effort of preparing information outweighs the benefits – limited resources are available in the public sector and Staff do not consider that users would be adversely impacted by application of AASB 15 paragraphs B63 and B63B (to be confirmed prior to including recommendation in the next draft of the Standard); and
 - (d) the NFP-specific transaction means that recognising the variable consideration in accordance with the requirements in B63-B63B of AASB 15 may more accurately reflect the economic reality, insofar as that the variable consideration is designed to generate revenue from the magnitude of activities in a particular period.

Question 3 to the Board: Do Board member agree to the Staff recommendation to apply AASB 15 paragraphs B63-B63B to account for variable consideration from all licences issued by public sector licensors subject to feedback from users of public sector reporting that the likely outcomes would be useful?

Appendix D: Analysis of issue 3 – Guidance in relation to recognition exemptions for short term and low-value licences

- D1 The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S6 – AHPRA) to ED 283 supported the provision of recognition exemptions for short-term and low-value licences. However, several respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S6 – AHPRA) requested the Board provide more guidance and examples on:
- (a) what the Board means by ‘short-term’ (i.e. what is the time threshold) and ‘low-value’ (i.e. what is the monetary threshold and/or examples);
 - (b) whether the Board intended for the exemption to apply to licences only when they satisfied both criteria (i.e. are both short-term and low-value); and
 - (c) whether the exemptions are appropriate for some low value licences that have a high volume of transactions, meaning the revenue is material.
- D2 Staff note that paragraph BC74 of ED 283 discusses how the Board decided to allow licensors the option of adopting practical expedients for low-value or short-term licences, consistent with the precedent set in AASB 16.

Short-term licences

- D3 ED 283 does not contain a definition of ‘short-term’ licences. AASB 16 defines a *short-term lease* as ‘A lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease’.
- D4 Staff recommend that a definition short-term licence is added to AASB 15. Specifically, a short-term licence is ‘a licence that, at the commencement date, has a licence term of 12 months or less’. Staff do not consider that examples of these licences would be necessary, given the definitive nature of this definition.
- D5 Staff consider adding this definition is to AASB 15 is justified under the Standard-Setting framework for the following reasons:
- (a) To facilitate NFP application issues: As the Board decided to include a practical expedient in AASB 15 for short-term licences issued by NFP public sector licensors, staff consider there could be application issues if short-term licences is not defined. Specifically, ‘short-term’ is used in a number of Standards to mean different periods of time (for example AASB 119 *Employee Benefits* defines it to be less than 12 months¹¹ and AASB 107 Statement of Cash Flows refers to a maturity period of three months or less¹²) adding practical expedients to AASB 15 for NFP public sector licensors without a definition could result in application issues and disparate accounting outcomes. This is also consistent with how a definition of short-term leases is included in AASB 16 given the practical expedient for short-term leases in that Standard.
 - (b) To prevent undue cost or effort: There are limited resources available in the public sector. The Board decided to add practical expedients to AASB 15 to facilitate simpler accounting even though adding them moved away from transaction neutrality. Staff consider adding a definition of short-term licences, whilst also moving away from transaction neutrality (as AASB 15 does not currently contain a definition) would further contribute to reduced cost/effort and therefore should be added. Staff do not consider

¹¹ AASB 119 paragraph 8 states ‘...Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service’

¹² AASB 107 paragraph 23A(c) states ‘other short-term borrowings, for example, those which have a maturity period of three months or less.’

that users would be adversely impacted by adding a definition to short-term that is consistent with the definition of short-term in AASB 16 to which the Board decided the practical expedients in AASB 15 should be based.

Question 4 to the Board: Do Board member agree with Staff’s recommendation to define a short-term licence within AASB 15 as ‘a licence that, at the commencement date, has a licence term of 12 months or less’?

Low-value licences

D6 Staff consider that the guidance in ED 283 with respect to low-value licences sufficiently addresses constituents comments, as detailed below:

- (a) paragraph G21 of ED 283 notes that licences qualify for recognition exemptions regardless of whether they are material to the licensor (i.e. this addresses the point raised in paragraph D1(c) of this paper);
- (b) paragraph G23 of ED 283 provides examples of low-value licences (eg driver licences, marriage licences and working with children permits); and
- (c) paragraph G22 of ED 283 states that ‘A licence does not qualify as a low-value licence if the nature of the licence is such that, the licence is not typically of low value. For example, casino licences would not qualify as low-value licences because casino licences would typically not be of low value.’

D7 Staff do not recommend that the Board quantifies when a licence would be of low-value, as this would depart from a principles-based Standard. It is necessary for preparers to apply professional judgement when using principles-based Standards such as AASB 15.

D8 Staff recommend including in the Basis for Conclusions to the final Standard clarification of the Board’s intention for the practical expedients in AASB 15 to be consistent with those in AASB 16 by reference to paragraphs BC98-BC104 in AASB 16. Within those BC paragraphs, it states ‘at the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US\$5,000 or less’. Staff consider making reference to this in the BC to the final Standard would sufficiently assist preparers without creating a rules-based Standard.

Question 5 to the Board: Do Board member agree with Staff’s recommendation to include within the Basis for Conclusions to the final Standard clarification of the Board’s intention for the practical expedients in AASB 15 to be consistent with those in AASB 16 by reference to paragraphs BC98-BC104 in AASB 16?

Clarification that Aus8.1 in ED 283 applies if either Aus8.1 (a) or (b) is satisfied

D9 Some respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices) were concerned that paragraph Aus8.1 as currently proposed in ED 283 may be read to mean that, to be able to apply a practical expedient, a licence must be both short-term and low-value

D10 Staff note that paragraph Aus8.1¹³ in ED 283 is currently drafted in a manner similar to the recognition exemptions in AASB 16 paragraph 5 and the Board did not intend for the exemption to only be applicable to a licence that is both short-term and low-value, nor does AASB 16.

¹³ ED 283 paragraph Aus8.1 states ‘Aus8.1 A not-for-profit public sector licensor may elect not to apply the requirements in paragraphs 9-90 (and accompanying Application guidance) to:
(a) short-term licences; and
(b) licences for which the transaction price is of low value.’

D11 Staff do not recommend changing the working in paragraph Aus8.1 as it is consistent with the wording in AASB 16 and follows the same format as other Aus paragraphs within the Standards (for example within the application paragraphs of AASB 1057 *Application of Australian Accounting Standards*).

Question 6 to the Board: Does the Board agree with Staff's recommendations not to amend the wording within ED 283 paragraph Aus8.1 with respect to the practical expedients?

Appendix E: Analysis of issue 4 – Examples of types of IP licences

- E1 Due to the minimal guidance available on what constitutes an IP licence, some respondents request that the Board provide specific examples of IP licences that would be unique to the public sector.
- E2 To address these comments, staff recommend that further outreach is conducted to know more about the types of IP licences that are issued in the public sector and include these as additional examples, if they are different to the examples currently provided in AASB 15. These examples might include IP licences over medical and other types of research.
- E3 Staff consider that this would be justified under the NFP standard-setting framework insofar that there may be types of IP licences identified that are unique to the public sector, and are of such prevalence that diversity in the accounting could result if examples and guidance was not provided.

Question 7 to the Board: Does the Board agree with Staff's recommendation to conduct further research to find out more about the types of IP licences issued in the public sector and add specific examples of public sector IP licences, if they are different to the examples currently provided in AASB 15?

Appendix F: Analysis of issue 5 – Example of whether a licence is distinct

F1 A number of respondents (S2 – EY S3 – Audit Offices, S5 – HoTARAC) raised their disagreement with the Board’s analysis that a commercial fishing licence is not distinct from other goods or services. These respondents were of the view that a public sector entity was not promising to transfer fish, but rather provide a right to perform an activity (fishing).

F2 Paragraphs G15 and G16 of ED 283 currently state:

‘G15 When determining whether the licence is distinct from other goods or services (in accordance with paragraphs 26-30 of AASB 15), a not-for-profit public sector licensor should consider the benefits or desired outputs for which the licence was issued. For example, in the case of a commercial fishing licence, the purpose of obtaining the licence is to obtain goods (ie the fish), and the licence is not separately identifiable from the fish, given:

- (a) the licensor is using the licence as an input to deliver the fish, which is the output to the licensee; and
- (b) the licence and the promise to deliver the fish are highly interrelated – the licensor would not be able to fulfil its promise of transferring the fish, without undermining its policies and customary business practices, independently of issuing the licence (ie the fish can only be obtained when a fishing licence has been granted).

In these circumstances, the licence is not separately identifiable from other promises in the arrangement, in accordance with paragraphs 29(a) and (c) of AASB 15.

G16 Not-for-profit public sector licensors may also find that despite an arrangement appearing as or being called a licence, it is in fact a ‘take or pay’ arrangement, and should be accounted for as such. An example of this would be where a not-for-profit public sector licensor issues an ‘abalone licence’ which requires the licensee to pay for a specified quota of abalone, regardless of whether or not the licensee subsequently manages to take the specified quota of abalone under the licensing arrangement.’

F3 Staff maintain that the commercial fishing licence in paragraph G15 of ED 238 is not distinct from goods, ie the fish, as entities that want to obtain the commercial fishing licence do so to obtain the fish and not merely for the right to perform the activity of fishing. In other words, the licensee can only benefit from the licence in conjunction with the related good (i.e. the fish) and the granting of the commercial fishing licence enables the licensee to access the fish. This is consistent with the specific guidance in paragraph B54(b)¹⁴ of AASB 15 on examples of licences that are not distinct from other goods or services promised in a contract. Nevertheless, as many respondents have raised concerns with the example, Staff recommend that the example be further clarified to link it back to the specific guidance in paragraph B54¹⁴ of AASB 15 about examples of licences that are not distinct to provide more clarity.

F4 Many respondents also noted that they were unaware of what a ‘take-or-pay’ arrangement was, and were unsure how the accounting would differ. A ‘take-or-pay’ arrangement is an arrangement in which an entity pays a fee for a specified quota of a product (which could be referred to as a licence), and must pay for the quota regardless of whether they manage to obtain that quota or not. Based on the feedback received with respect to ‘take-or-pay’

¹⁴ AASB 15 paragraph B54 states ‘If the promise to grant a licence is not distinct from other promised goods or services in the contract in accordance with paragraphs 26–30, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single performance obligation. Examples of licences that are not distinct from other goods or services promised in the contract include the following:

- (a) a licence that forms a component of a tangible good and that is integral to the functionality of the good; and
- (b) a licence that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a licence, the customer to access content).

arrangements, Staff recommend explaining what a take-or-pay arrangement is within paragraph G16 of the next draft of the Standard.

Question 8 to the Board: Does the Board agree with Staff's recommendations to further clarify why the commercial fishing example in paragraph G15 of ED 283 is an example of a licence that is not distinct from other goods or services in the contract (as detailed in paragraph Error! Reference source not found.) and to provide an explanation of take or pay' arrangements In paragraph G16 of the next draft of the Standard?

Appendix G: Analysis of issue 6 – Non-IP licences issued by FP public sector entities

- G1 A number of for-profit public sector entities have been identified as issuing non-IP licences which appear to be identical in nature to those issued by the NFP public sector, such as
- (a) forest permits issued by state forestry corporations for research, hunting, filming, firewood collection, grazing and apiary;
 - (b) water access licences issued by state water corporations – to extract water from rivers or aquifers for irrigation, industrial or commercial purposes; and
 - (c) licences required to perform work on or near electrical distribution networks, issued by electricity generators to undertake contestable work.

- G2 Having been made aware of these arrangements, Staff recommend that the scope of this project is expanded to include for-profit public sector entities.

In considering *The AASB's Standard-Setting Framework for For-Profit Entities*, Staff consider the scope expansion is warranted as “issues specific to the public sector are of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements. Consistency across the public sector, rather than consistency with other FP entities, is more important to users.

However, this might result in public sector for-profit entities being unable to state IFRS compliance, for example where an entity utilises the recognition exemptions for short-term/low-value licences. The Board may wish to direct Staff to identify and contact some of these entities to further understand:

- (a) the materiality of these licences; and
- (b) the effects of non-compliance with IFRS for their entities.

Question 9 to the Board: Does the Board agree with Staff's recommendation to expand the scope of the project to include for-profit public sector entities, making the overall project applicable to all public sector entities? Or does the Board want Staff to conduct further outreach with entities in the FP public sector to assess the materiality of these licences for these entities and the implications of non-compliance with IFRS for these entities?

Appendix H: Analysis of issue 7 – Licences involving non-identified assets of the licensor

H1 Some respondents noted example of non-IP licences involving the non-identified assets of the public sector, such as mooring fees, road occupancy licences and aquatic licences.

H2 Staff consider that the arrangements provided would likely be classified as follows:

- (a) mooring fees – Staff agree that this arrangement does not appear to be a lease as the licensor appears to have substantive substitution rights. Staff note that this appears to be an example of a non-IP licence involving an asset of the licensor;
- (b) road occupancy fees – Staff considered that in some cases, this may be a lease. However, Staff also note the respondents commented that the government agency directs the use of the area to be occupied and, hence, would not contain a lease within the scope of AASB 16. In such a case, Staff agree that this may be an example of a non-IP licence involving an asset of the licensor;
- (c) aquatic licences – Staff consider that aquatic licences may also be an example of a non-IP licence involving an asset of the licensor for the same reasons outlined in (b);
- (d) licence for use of data – Staff recommend that this could be considered as an example of IP licences for the purpose of providing examples of IP licences specific to the public sector, as noted in the Staff recommendations to other comments – examples of IP licences (see Appendix E); and
- (e) data registries are intangible assets (i.e. contain customer relationships), which depending on the fact pattern could be accounted for under various Standards including (but not limited to) AASB 15 or AASB 1059 depending on the fact pattern of these arrangements and the role of the public sector ‘licensor’ and the ‘licensee’ .

H3 For non-IP licence involving an asset of the licensor, Staff note that ED 283 paragraph G13 (b) (ii) currently requires that, if such non-IP licences are distinct from other goods or services, they shall be accounted for as a separate performance obligation under AASB 15 (i.e. the general principles of AASB 15 together with proposed guidance in ED 283). The Board agreed that this would be the most appropriate treatment given the difficulties observed when Staff had attempted to apply AASB 15 paragraphs B52-B63B for IP licences to non-IP licences¹⁵.

H4 Given the outcomes of previous analysis conducted (in Agenda paper 3.2 of the October 2017 AASB Board meeting and the conclusion reached, which is reflected in ED 283,, Staff do not recommend amending the guidance in the final Standard requiring licensors to apply AASB 15 paragraphs B52-B63B to non-IP licences involving an asset of the licensor.

H5 In providing the recommendation in paragraph H4, Staff also considered the following:

- (a) The prevalence of these types of licences appears to be minimal;
- (b) Staff expect that road occupancy and aquatic licences would often be short-term, and therefore licensors could apply the practical expedients to account for such arrangements; and

¹⁵ Refer to [Agenda paper 3.2](#) of the October 2017 AASB Board meeting where Staff had explored applying AASB 15 paragraphs B52-B63B to abalone and fishing licences as if they were examples of non-IP licences that involve a licensor’s asset (i.e. in that paper for the purposes of analysis, Staff had ignored that these licences would likely not be distinct from the goods).

- (c) Staff consider that the costs to a licensor of determining whether a non-IP licence involves the use of an entity's underlying asset may outweigh the benefits (if any).

Question 10 to the Board: Does the Board agree with Staff's recommendation to require licensors of non-IP licences involving a non-identified asset of the licensor to account for such licences using the general principles of AASB 15 and guidance provided by the AASB in ED 283 (consistent with treatment of other non-IP licences)?

Appendix I: Other recommendations including editorial changes

The following table includes other comments received by respondents to ED 283 and recommendations from Staff to address the responses.

Other Comment	Staff recommendation
Scoping of licences	
<p>One respondent (S2 – EY) commented that the proposed wordings of paragraph Aus5.2 would require all licence arrangements of NFP entities to be within the scope of AASB 15 (ie as if all licence arrangements are contracts with customers) even if in substance some of them are not, for eg because they are taxes. The respondent’s view is that the proposals should apply to licence arrangements only where they are indeed contracts with customers (with contracts defined to include those that arise from statutory or legislative requirements).</p>	<p>To address the above concern, staff recommend Aus5.2 be amended to read as follows (added text underlined):</p> <p>Aus5.2 Notwithstanding paragraph 5, in respect of not-for-profit public sector licensors, this Standard also applies to all licences issued, other than licences subject to AASB 16 <i>Leases and taxes subject to AASB 1058 <u>Income of Not-for-Profit Entities</u></i>, as if the licences are contracts with customers. Licences issued would include those arising from statute or legislative requirements. Guidance on distinguishing between a licence and a tax is set out in paragraphs G3-G6. Licences subject to AASB 16 are those where the arrangement is a lease, or contains a lease, in accordance with AASB 16, excluding licences of intellectual property.</p> <p>Question 11 to the Board: Does the Board agree with Staff’s recommendation to amend Aus5.2 (as detailed above) to clarify that taxes are subject to AASB 1058 <i>Income of Not-for-Profit Entities</i>?</p>
Additional guidance on terms used	
<p>One respondent (S3 – Audit Offices) requests additional guidance to clarify the differences between ‘rights over the licensor’s identified assets’, ‘right to perform an activity’, ‘right to use’ and ‘right to access’, as highlighted in ED 283.</p>	<p>Staff do not recommend providing further guidance in relation to ‘rights over the licensor’s identified assets’, ‘right to perform an activity’, ‘right to use’ and ‘right to access’, as Staff are of the view that sufficient guidance already exists in AASB 15 and ED 283.</p> <p>For example:</p> <ul style="list-style-type: none"> • ‘right to use’ and ‘right to access’ are explained in paragraphs B52-B63B, and the Board does not intend to depart from the terms as used by the IASB in AASB 15; and • ‘right to perform an activity’ and ‘rights over the licensor’s identified assets’ are described in paragraph G13. Staff do not consider that additional guidance of these are needed beyond what is already there, also noting that the majority of respondents did not raise concern in interpreting this. <p>Question 12 to the Board: Does the Board agree with Staff’s recommendation that further guidance in relation to ‘rights over the licensor’s identified assets’, ‘right to perform an activity’, ‘right to use’ and ‘right to access’, is not necessary as there is sufficient guidance within in AASB 15 and ED 283.</p>

Other Comment	Staff recommendation
Editorial comments	
<p>One respondent (S2 – EY) noted the following editorial matters:</p> <ul style="list-style-type: none"> • paragraph G1, in the first box, should refer to ‘is the transaction a licence or a tax’ rather than ‘is it a non-IP licence’; • paragraph G15 should refer to ‘non-IP licence’ rather than just ‘licence’; • paragraph G6 should add ‘where grant of licence is a lease, account for in accordance with AASB 16’; • paragraph G13(c) should be split into (i) distinct and (ii) not distinct; • paragraph G14 should give examples of when a licence would be issued as part of a bundle of goods or services; • paragraph IE6 – the first sentence should say “satisfies its performance obligations related to the licence” rather than referring to the “transferring of the licence” • paragraph IE7 – the respondent requestions the AASB: <ul style="list-style-type: none"> ○ provides an example of a licence with revenue recognised over time; ○ clarifies if the arrangement is a licence or a tax; and ○ whether it can transfer goods and services to other beneficiaries and still be a performance obligation. • paragraph IE8 – is the licence a licence or a tax? 	<p>Staff recommend addressing the editorial matters (as noted by S2 – EY) as part of Staff’s redrafting of the proposals.</p> <p>Question 13 to the Board: Does the Board agree that Staff will address editorial matters as part of redrafting?</p>

Appendix J: Full log of comments and cross reference to Staff recommendations

[NOTE TO BOARD MEMBERS] - THIS APPENDIX IS FOR EXTRA INFORMATION PURPOSES ONLY. ALL OF THE KEY ISSUES AND RECOMMENDATIONS HAVE BEEN INCLUDED IN APPENDICES B-I

The Board has previously been presented with the left hand column of the below table in the May 2018 AASB meeting. It contains an audit trail of the Staff responses to all comments received in the right hand column.

SMC 1 Do you agree to expanding the scope of AASB 15 to include non-contractual licences (ie arising from statutory arrangements) (paragraphs 4, G7-G9)? If not, please provide your reasons.

SMC 1 Respondents comments	Staff recommendation
<p>A. The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S5 – HoTARAC,) agree with the proposal to include non-contractual licences within the scope of AASB 15, with numerous noting that this would enhance consistency in public sector accounting.</p> <p>B. One respondent (S4 – SA and TAS Audit Offices) disagreed that non-IP licences should be dealt with at all in AASB 15, despite noting that the accounting for non-IP licences not captured by AASB 16 Leases should relate to non-contractual, as well as contractual licences. Staff have addressed this concern in SMC 3 (using AASB 15 to account for licences).</p> <p>C. One HoTARAC jurisdiction (but not all) disagreed with this question on the basis that they consider non-contractual licences to be taxes rather than licences within the scope of AASB 15. Staff have addressed this concern in SMC 7 (licence or tax guidance).</p>	<p>Refer to Appendix B - Staff do not consider any further action is required for the question.</p>

SMC 2 Are you aware of any lease arrangements that would arise from statutory arrangements rather than a contract? If so, please provide details of these arrangements and their accounting treatment.

SMC 2 Respondents comments	Staff recommendation
<p>A. The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices,) were not aware of lease arrangements arising from statutory</p> <p>B. One respondent (S5 – HoTARAC) noted that the Port of Melbourne transaction arose from legislation and was classified as an operating lease for GFS purposes.</p>	<p>Staff note that this question was included in ED 283 so that the Board could consider whether it should amend AASB 16 <i>Leases</i> to include leases which arise from statutory obligations.</p> <p>Noting that only one example of this type of lease was identified, Staff are not of the view that this issue is of such prevalence and magnitude to NFP entities that it would justify amendments under <i>The AASB's Not-for-Profit Entity Standard-Setting Framework</i>. In addition, Staff are aware that this transaction has been accounted for as a lease in accordance with AASB 16 <i>Leases</i> having, in substance, met the definition of a lease. Staff propose no further action in respect of this SMC.</p>

SMC 3(a) Do you agree with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specify that IP licences shall apply the guidance in paragraphs B52-B63B of AASB 15?

SMC 3(a) Respondents comments	Staff recommendation
<p>A. The majority of respondents, S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S5 – HoTARAC (most) agree with SMC3 (a), that IP licences shall apply the guidance in AASB 15 paragraphs B52-B63B.</p> <p>B. One HoTARAC jurisdiction (but not all) disagreed with this question on the basis that they consider licences to be taxes (within the scope of AASB 1058) rather than within the scope of AASB 15. Staff have addressed this concern in SMC 7 (licence or tax guidance).</p>	<p>As majority of respondents agreed that the accounting for revenue from IP licences should be in accordance with the requirements in AASB 15 paragraphs B52-B63B (i.e proposed requirements in paragraphs G10-G13 of ED 283), staff recommend that this be finalised in the Standard.</p>

SMC 3(b) Do you agree with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specify that non-IP licences, that are not a lease and are distinct from other goods or services, shall be accounted for as a separate performance obligation under AASB 15? If not, please provide your reasons.

SMC 3(b) Respondents comments - Category 1: Respondents who agreed	
<p>The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit offices (Vic, NSW, WA, NT, Qld), S5 – HoTARAC and S6 – AHPRA) agree in principle with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specified that non-IP licences, that are not a lease and are distinct from other goods or services, shall be accounted for as a separate performance obligation under AASB 15. However, numerous respondents (S2 – EY, S3 – Audit offices (Vic, NSW, WA, NT, Qld), S5 – HoTARAC and S6 – AHPRA) raised concern in regard to the outcomes that may come of the guidance, such as some arrangements that are currently recognised over time requiring a change to point in time, and whether the guidance in AASB ED 283 is helpful in respect of identifying genuine performance obligations of public sector licensors.</p> <p>Specifically, points raised are as follows:</p> <p>A. Respondents (S3 – Audit Offices, S5 – HoTARAC, S6 – AHPRA) disagree with paragraph G18, which states that protecting the exclusivity of an arrangement, periodically monitoring whether the terms of the arrangement are being met and upholding the integrity of the licence shall not be considered as separate performance obligations and instead are features of the licensing arrangement. The respondents note that the licence arrangements, including gaming/casino licences, are commercially negotiated contracts, where the licensor and licensee agree to a value exchange for the whole of the licence period. The respondent notes that ongoing commerciality is a fundamental characteristic of the arrangement and that the licensor is required to actively manage/sustain the value of the arrangements beyond just maintaining exclusivity.</p> <p>B. The respondents are of the view that maintaining the commerciality of the arrangements are akin to ongoing maintenance obligations that represent performance obligations in accordance with AASB 15. The actions required by the licensor are ‘active’ and not ‘passive’ – without the active involvement of the State, there is a risk that the commercial value of the arrangement will not be upheld, potentially exposing the licensor to legal action from the licensee. In this respect, the licensor’s activities:</p> <ul style="list-style-type: none"> (i) serve to maintain confidence in the services, systems and operations of the licensee, upon which the commerciality of the arrangement is underpinned; and (ii) if not performed would substantially detract from the commerciality of the arrangement. <p>C. One respondent (S5 – HoTARAC) notes that without the recognition of the activities that the licensors need to fulfil and the commerciality that this provides, the exposure draft will not provide the clarification on non-IP licences that it is seeking to achieve. The respondent also argues that where these obligations are met, AASB 15 paragraph 35(b) <i>“the entity’s performance creates or enhances an asset [in this instance a licence] that the customer controls as the asset is created or enhanced”</i> is met and that revenue would be recognised over the term of the licence.</p> <p>D. Respondents (S5 – HoTARAC, S6 – AHPRA) have made AASB Staff aware of the following activities that public sector entities must conduct for the licensee:</p> <ul style="list-style-type: none"> (i) ongoing assurance that the licensor provides for the public to engage in fair gambling activities; 	<p>Refer Appendix B</p>

SMC 3(b) Respondents comments - Category 1: Respondents who agreed

- (i) conducting inspections and compliance activities;
- (ii) conducting complex investigations for compliance;
- (iii) ensuring the industry remains free from criminal influence;
- (iv) ensuring the integrity and reliability of systems;
- (v) monitoring the financial activities and probity of approved participants in the gaming industry to ensure compliance with regulations and ongoing suitability to hold a licence, permit or approval;
- (vi) provision of a national public register and the ability for licensees to freely move across jurisdictions to practice within the scope of licence;
- (vii) ongoing requirement to monitor that compliance restrictions are met;
- (viii) providing ongoing 'audit' services which over a cyclical period randomly audits registrants for compliance with the licence obligation to ensure the protection of the public;
- (ix) ongoing work to review, amend and update standards for the licencing eligibility; and
- (x) standing ready to respond to complaints of non-licenced activities

E. One respondent (S5 – HoTARAC) notes that recognising these activities as performance obligations is the current practice for preparers and auditors. This statement appears to be supported given the comments in S3 – Audit Offices (S3 – Audit Offices and S5 – HoTARAC contain the majority of public sector preparers and auditors).

F. One respondent (S2 – EY) suggests that the AASB give further consideration to determine, despite the AASB's current proposals accurately reflecting the principles of AASB 15, whether additional conditions (ie exclusivity and monitoring activities) should be taken into account for some non-IP licences to allow them to recognise revenue over time. The respondent noted reasons for the Board to consider this as follows:

- (i) ED 283 would significantly change the accounting treatment as compared to current practice;
- (ii) public sector licensors may consider the accounting treatment as non-reflective of the way they view the significance of the revenue stream from these licences to their business model;
- (iii) the proposals do not reflect the economic substance of revenue from certain licences; and
- (xi) differences in nature and substance of non-IP licences and IP licences.

SMC 3(b) Respondents comments - Category 2: Respondents who disagreed	Staff recommendation
<p>Three respondents (S4 – Audit Offices (SA & TAS), S5 – HoTARAC (one jurisdiction, but not all) and S7 – ABS) disagreed with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specified that non-IP licences, that are not a lease and are distinct from other goods or services, shall be accounted for as a separate performance obligation under AASB 15. The reasons for their disagreements are as follows:</p> <p>A. One respondent (S4 – SA and TAS Audit Offices) disagrees with applying AASB 15 to non-IP licences on the basis that the respondent does not see the issuance of a non-IP licence as a performance obligation, and is of the view that income from the issuance of non-IP licences should be recognised under AASB 1058.</p> <p>B. One jurisdiction at HoTARAC disagrees with expanding the scope of AASB 15. In their opinion, the licences issued by the government are unique in nature and only apply to arrangements underpinned by the coercive power of the state. They are not the same as a voluntary transaction between two independent parties that both benefit from the transaction. They should not be included in AASB 15, but dealt with separately ie via AASB 1058.</p> <p>C. Respondent S7 – ABS, whilst not explicitly disagreeing with SMC 3(b), disagrees with the related accounting treatment for the casino licence in Examples 8 and 9 of ED 283 because the treatment is not aligned to GFS, where this type of arrangement would be considered a tax rather than a licence. Refer to SMC 7 for more details.</p>	<p>Staff presented a detailed analysis of the applicability of AASB 15 to various types of licences in agenda item 5.2 of the August 2017 AASB Board Meeting. At this time the Board agreed with the Staff analysis that both IP licences and non-IP licences (that are not a lease) do fall within the scope of AASB 15. Staff’s basis for this conclusion was that all licences which were not within the scope of AASB 16 or AASB 1059, or were not a tax within the scope of AASB 1058, appeared to satisfy the meaning of:</p> <ul style="list-style-type: none"> (a) a contract, despite arising from statutory arrangements; (b) goods or services, consistent with AASB 15 paragraph 26 and proposals made by the Canada Public Sector Accounting Standards Board; and (c) ordinary activities, irrespective of whether a new licencing regime is being introduced or a licence is infrequently issue. <p>And therefore appropriately fall within the scope of AASB 15</p> <p>Staff are of the view that the reasons discussed above (A) and (B) do not provide sufficient justification to move away from AASB 15. As noted in BC37¹⁶ of ED 283, the Board previously concluded against using AASB 1058 for arrangements which are not taxes, given AASB 1058 is a ‘residual’ income recognition Standard. In addition, as noted in BC49-BC51 of ED283, the Board concluded using AASB 15 as the primary revenue recognition Standard for accounting for revenue from IP and non-IP public sector licences as being appropriate as these licences would meet the scoping requirements of AASB 15 (as noted above). The Board agreed to this decision with regard to the types of arrangements that some entities may consider outside the scope of AASB 15, such as where a licence arises from statutory arrangements or does not appear to be an output of an entities’ ordinary activities. Staff do not consider respondents’ comments pose additional examples that the Board has not previously considered.</p> <p>The majority of respondents agreed to the application of these non-IP licences in AASB 15, refer to Appendix B for key issues considered.</p> <p>With respect (C) discussed above, Staff will consider this feedback in conjunction with other feedback in response to SMC7.</p> <p>Refer to Appendix C.</p>

SMC 4 In relation to the AASB’s proposal in paragraph 4 and the guidance in paragraphs G19-G23 of this Exposure Draft (‘Recognition exemptions’), to include practical expedients in the Amending Standard to account for revenue from short-term or low-value licences issued by not-for-profit public sector licensors:

- (a) **do you agree that this proposal would provide relief to preparers while retaining a faithful representation of a not-for-profit public sector licensor’s financial performance? Please provide your reasons.**
- (b) **if not, what alternative practical expedient approach (if any) to income recognition would you recommend for not-for-profit public sector licensors? Please provide your reasons.**

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The Board concluded that AASB 1058 should not apply to accounting for revenue from licence arrangements within the scope of this project as it is a ‘residual’ income recognition standard and AASB 15 would be more suitable as it is a ‘primary’ revenue recognition standard.

SMC 4 Respondents comments	Staff recommendation
<p>The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S6 – AHPRA) supported the inclusion of the recognition exemptions, noting that this would reduce the implementation burden without misrepresenting the licensor’s financial performance. However the following comments were noted:</p> <p>A. Respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S6 – AHPRA) requested that the AASB clarify by way of definitions or other guidance, the intended meaning of ‘short-term’ and ‘low-value’. Some respondents (S1 – KPMG, S3 – Audit Offices, S4 – SA and TAS Audit Offices) acknowledged that paragraphs BC73-BC74 in ED 283 help to interpret short-term licences and the Boards intention to be consistent with AASB 16 <i>Leases</i>, but nonetheless further guidance is preferred. These respondents provided the following comments:</p> <p>a) <i>Short-term licences</i></p> <p>(i) Respondent S1 – KPMG recommended clarifying what is meant by short-term licences because references to short-term in Standards vary – AASB 16 and AASB 119 <i>Employee Benefits</i> define short-term to mean 12 months or less (in the case of AASB 119 it is wholly less than), whereas AASB 107 <i>Statement of Cash Flows</i> uses ‘short-term’ referencing a maturity period of three months or less, and AASB 9 <i>Financial Instruments</i> uses the term in the context of classification of a financial instrument that is held for trading, for “short-term profit-taking”;</p> <p>(ii) Respondents S3 – Audit Offices, S6 – AHPRA and QAO (via additional comments to the S3 – Audit Offices’ submission) stated that there are no examples of ‘short-term’ provided in Appendix G to ED 283 and it is unclear what is taken into consideration when determining whether or not a licence is short-term. For example, a driver licence might be issued for one, five or ten years, but it is up to the licensee if, when and for how long the licence is renewed. One respondent (QAO) also noted that It is not clear whether the short-term expedient will apply in situations where the licensee has a choice to renew (say) every year or renew for three years.</p> <p>b) <i>Low-value licences</i></p> <p>(iii) In developing AASB 16, the IASB provided a guideline of low-value meaning an “order of magnitude of US\$5,000 or less”. AASB 16 does not include this prescriptive number in the Standard, but has been included in the IASB’s Basis for Conclusions. Respondents encourages the AASB to follow this approach (S1 – KPMG, S2 – EY);</p> <p>(iv) The AASB should include a reminder around low-value being a concept rather than an assessment of materiality (S1 – KPMG);</p> <p>(v) Examples of ‘types of licences’ rather than a monetary threshold may be more helpful (S3 – Audit Offices);</p> <p>(vi) The Basis for Conclusions should further explain why a practical expedient for low-value licences is appropriate. This respondent (S4 – SA and TAS Audit Offices) supports this practical expedient because low value licences are expected to be issued often and as such, there would not likely be unfaithful representation from applying the expedients.</p> <p>18 The proposed guidance relies on the licensor assessing the ‘nature of the licence’ for the licence to qualify for the low-value exemption, however does not provide detailed guidance on how to make this qualification (the respondent suggested to see, for example, AASB 16 paragraph B5) (S2 – EY).</p>	<p>Refer to Appendix D</p>

SMC 4 Respondents comments continued	Staff recommendations continued
<p>B. Some respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices) were concerned that paragraph Aus8.1 as currently proposed in ED 283 may be read to mean that, to be able to apply a practical expedient, a licence must be both short-term and low-value. Therefore these respondents suggested paragraph Aus8.1(a) should be amended to read as follows (refer to strike through and underline):</p> <p style="padding-left: 40px;">“Aus8.1 A not-for-profit public sector licensor may elect not to apply the requirements in paragraphs 9-90 (and accompanying Application guidance) to:</p> <p style="padding-left: 80px;">(a) short-term licences; and <u>or</u></p> <p style="padding-left: 40px;">(b) licences for which the transaction price is of low value.”</p>	<p>Refer to Appendix D</p>
<p>C. One respondent (S2 – EY) noted that, as currently drafted, the proposed amendments in paragraph Aus8.2 are not clear on whether the exemptions apply only to licences of non-IP, or to all types of public sector licences. The respondent notes that in the case that IP licences are eligible for the exemption, transaction neutrality would not remain.</p>	<p>With respect to SMC 4(C), (D) and (E), Staff do not recommend making any further changes to the recognition exemptions or related guidance in ED 283 for the following reasons:</p> <p>(a) The recognition exemptions are intended to apply to both IP and non-IP licences as noted in ED 283 paragraphs BC73 (option 3) and BC74. The Board noted when making this decision that they would provide convenient sub-options and result in consistency in practice; and</p> <p>(b) HoTARAC’s feedback questioning whether the proposed expedients offer any substantive ‘relief’ for preparers and concerns that some low value licences have a high volume of transactions (which can be material in aggregate), are offset by their view that the proposed expedients are in line with the existing accounting treatment of the majority of licences being issued by public sector entities and provide faithful representation.</p> <p>Also of note with respect to HoTARAC’s feedback, is fieldwork conducted by the IASB to assess the effect that low-value asset leases would have. It was observed in findings from that fieldwork, that in most cases, assets and liabilities arising from leases within the scope of the exemption would not be material, even in aggregate. The IASB considered whether these findings demonstrated that the exemption would be of limited benefit to lessees because most leases that would be within its scope might instead be excluded from the recognition requirements of IFRS 16 by applying the concept of materiality in the <i>Conceptual Framework</i> and in IAS 1. However, in the light of feedback received from preparers of financial statements, the IASB concluded that the exemption would provide substantial cost relief to many lessees (and, in particular, smaller entities) by removing the burden of justifying that such leases would not be material in the aggregate. The same rationale can be applied to the proposed licences practical expedients.</p> <p>Refer to Appendix D</p>
<p>D. One respondent (S5 – HoTARAC) questions whether the proposed expedients offer any substantive ‘relief’ for preparers. This respondent notes that the proposed expedients are in line with the existing accounting treatment of the majority of licences being issued (of which most will be eligible for the practical expedient). In any case, the respondent noted that the existing treatment provides faithful representation.</p>	
<p>E. One respondent (S5 – HoTARAC) noted that some low value licences have a high volume of transactions, meaning the revenue is material. The respondent questions whether recognising revenue on a single systematic basis could lead to inconsistencies in how material revenue streams are reported.</p>	

SMC 5 In relation to licences issued by not-for-profit public sector licensors that are not intellectual property (IP) licences (ie non-IP licences) that involve sales-based or usage-based commission:

- (a) do you agree with the AASB’s proposal to use the general guidance in AASB 15 paragraphs 56-57 (‘Constraining estimates of variable consideration’) to determine the transaction price for the licensing arrangement, which in turn would determine the timing of revenue recognition? Please provide your reasons.
- (b) if not, as an alternative, do you believe the general guidance in AASB 15 should be amended to reflect for non-IP licences, the guidance for sales-based or usage-based royalties set out in paragraph B63 of AASB 15 for IP licences? This guidance may make it easier for licensors to determine the transaction price and timing of revenue recognition of non-IP licensing arrangements involving sales-based or usage-based consideration. However, this would mean that the accounting for non-IP licences by not-for-profit public sector entities would be different from that for other entities (which would not be transaction neutral).

SMC 5 Respondents comments	Staff recommendation
<p>A. Three respondents (S1 – KPMG, S2 – EY, S5 – HoTARAC,) support the use of AASB 15 paragraphs 56-57 to account for licensing arrangement which involve sales-based or usage-based revenue, so that consistency of accounting is maintained across sectors.</p> <p>B. Two respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices) note that practical difficulties would arise for NFP public sector entities applying AASB 15 paragraphs 56-57 to account for licensing arrangement which involve sales-based or usage-based revenue. These respondents support the alternative of applying AASB 15 paragraph B63. Reasons for this include:</p> <ul style="list-style-type: none"> (i) estimating future revenue would be difficult, as it would require consideration of external factors such as economic conditions and tourism (factors that could increase the likelihood or the magnitude of a revenue reversal). Due to this, the respondent does not agree that the fact pattern described in Example 9 of ED 283 would lead to the ability to conclude that a significant reversal would not be highly probable; and (ii) the only performance obligation is assessed as at the point of issuing the licence, which may make it difficult to measure reliably. <p>Respondent S4 – SA and TAS Audit Offices also noted that even though transaction neutrality would be the preferred outcome, they do not consider it to be relevant due to the inability of the private sector to participate in the same transactions (that is, non-IP licences do not appear to be issued by non-public sector entities).</p> <p>Respondent S3 – Audit Offices suggested that additional guidance would be needed to understand how the licensor accounts for the cost of its obligations under the licence arrangement, if paragraphs 56-57 were to be applied.</p> <p>C. One HoTARAC respondent (but not all) was concerned with this proposal as they were of the view that the ‘variable consideration’ received from the licensee was in fact a completely separate transaction (and represents a tax), and should not be accounted for in conjunction with the licence. See SMC 7 for further discussion on this issue.</p> <p>D. One respondent (S5 – HoTARAC,) supported transaction neutrality but suggested that licence fees and royalties arising from conducting licensed activities are separate revenue transactions, and do not consider the royalties to be contingent consideration.</p>	<p>Refer to Appendix C</p>

SMC 6 In relation to non-IP licences issued by not-for-profit public sector licensors, do you have examples of distinct licences issued that involve a non-identified asset or assets of the licensor (ie that are not leases)? Please provide the details of your example. If you do have an example, do you think the specific guidance in paragraphs B52-B63B for IP licences may also be useful to help account for the licence in your example? (Paragraphs G14-G15)

SMC 6 Respondents comments	Staff recommendation
<p>A. One respondent (S5 – HoTARAC) requests the AASB clarify whether the “non-identified assets of the licensor (ie that are not leases)” refer to assets that are “controlled” for accounting purposes (ie on balance sheet) or “controlled” but not on balance sheet (eg navigable waters). The respondent provided the following examples of examples of non-IP licences that involve on and off-balance sheet assets of the licensor that are not considered leases:</p> <ul style="list-style-type: none"> (i) mooring fees - private mooring fees permit individuals to moor vessels on navigable waters. Renewed annually, this licence is not a lease of the seabed and there is no guarantee of tenure. The general position of the site is determined (and may be varied) at the discretion of the government agency. (ii) road occupancy licences - required for any activity likely to impact on traffic flow, even if that activity takes place off-road. The government agency directs the use of the area to be occupied. (iii) aquatic licences - required for organised activities on, or in, navigable waters. This may also include the exclusive use of an area of navigable water for the conduct of an aquatic activity. The government agency directs the use of the area to be occupied. <p>The respondent notes that these examples are of low value and considers that the proposed practical expedients may apply. Nonetheless, the respondent believes paragraphs B52-B63B would apply.</p> <p>B. One respondent (S4 – SA and TAS Audit Offices) provided outsourced maintenance of data for lands titles (which can include a licence to use that data for commercial purposes) as an example of licences that involve the non-identified assets of a licensor. The respondent requests the AASB clarify whether such arrangement is an IP licence in accordance with AASB 15 (where not a service concession arrangement).</p> <p>C. One respondent (S2 – EY) is aware of certain licences issued which allow access to data registries that could contain unidentified assets such as customer relationships, trademarks and brand names</p> <p>D. Three respondents (S2 – EY S3 – Audit Offices, S5 – HoTARAC) disagree with the concept in paragraph G15 that a commercial fishing licence is not distinct from other goods and services. In the respondents’ view, the licensor’s obligation is to grant the licensee the right to perform a commercial activity. It does not promise the licensee to transfer the fish, as the fish is not a commodity for sale and the fee is not refundable if no fish are caught. Staff note that this issue was also raised in informal meetings held with some constituents (ABS and DTF NSW).</p> <p>Some respondents (S5 – HoTARAC, S2 – EY, NSW Treasury, ACAG FRAC), via both formal and informal communications with Staff, indicated that they were unaware of what a ‘take-or-pay’ arrangement was (including the accounting treatment). These respondents requested the Board to clarify this, with one respondent requesting the Board to clarify whether these are in the nature of a tax and should be accounted for under AASB 1058.</p>	<p>Refer to Appendix H</p>

SMC 7 Do you agree that the features outlined in paragraph G3 to determine a tax from a licence provide sufficient guidance in making this distinction? If not, what other factors may be useful to make the distinction?

SMC 7 - Category 1: Respondents who disagreed with AASB's tax versus licence outcomes	Staff recommendation
<p>Three respondents (S4 – SA and TAS Audit Offices, S5 – HoTARAC and S7 – ABS) recommend aligning the tax versus licence guidance in G3 more closely with GFS to allow for the harmonisation of the two frameworks. Specifically:</p> <p>A. Respondent S7 – ABS raised concern that the guidance to determine a tax from a licence is inconsistent with the distinction under Australian GFS (AGFS). Under AGFS, a licence may be classified as either taxation revenue or an administration fee, dependent on whether the payment for the licence is clearly out of proportion to the cost of providing the service.</p> <p>For example, based on the information provided in example 8 of ED 283, the ABS would classify the casino licence as a tax because it is a compulsory fee to legally run a casino, and the fee (\$100 million) is out of all proportion to the costs of administration (\$100,000)</p> <p>The ABS pointed out that the distinction between tax and other types of revenue (including revenue for licences) is important in macroeconomic statistics because it impacts on how the transactions are recorded in the National Accounts. Revenue from taxes are recorded in the income account of government. Revenue from the provision of services by government is included as an offset to outlays in the calculation of government final consumption expenditure, which contributes to Gross Domestic Product measured on an expenditure basis.</p> <p>B. Respondents S4 – SA and TAS Audit Offices and S5 – HoTARAC raised concerns with the proposal to allocate the transaction wholly to the promise to grant licence where the arrangement has a dual purpose of granting a licence and imposing a tax. The respondents are especially concerned with the practical consequences when having to account for the variable consideration, noting that it is possible for an arrangement to demonstrate both elements of licensing and taxation.</p> <p>In the case of DTF SA, their casino licensing arrangement consists of two separate arrangements, a licence (via an Approved Licensing Agreement) and a tax (via a Casino duty Agreement). The terms of each agreement are not co-dependent, and whilst linked, are economically separate agreements. They noted in discussions with AASB staff that the licence in this case, which covers exclusivity is considered as one performance obligation and recognised up front when the consideration for the licence is received and the licence is issued. Whereas the consideration received with respect to the casino duty is treated as a tax and recognised over time.</p>	<p>Refer to Appendix C</p>
SMC 7 - Category 2: Respondents who provided feedback on the AASB's tax versus licence features in paragraph G3 of ED 283	
<p>AASB Feature (a) – Is the arrangement discretionary rather than compulsory?</p> <p>Three respondent (S3 – Audit Offices, S4 – SA and TAS Audit Offices, S2 – EY) requested further clarification of the terms 'compulsory' and 'discretionary', as, for example, some might consider a driver's licence is compulsory (on the basis that a licence is required for you to drive legally), whilst others may consider a driver's licence is discretionary (as no person is compelled to drive). One respondent (S4 – SA and TAS Audit Offices) noted that they reached the same conclusions without considering G3 (a), so suggests that it could be removed altogether.</p>	<p>Refer to Appendix C</p>
<p>AASB Feature (b) – What is the primary purpose?</p> <p>One respondent (S2 – EY) questions whether this feature is helpful. The respondent considers that ultimately both taxes and licences are established to provide income to the government (although notes this is discussed at BC20).</p>	<p>Refer to Appendix C</p>
<p>AASB Feature (c) – 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?</p> <p>One respondent (S2 – EY) consider this feature to be helpful in most occasions in making the distinction. However, not all licences may have "direct obligations of a payee".</p>	<p>Refer to Appendix C</p>
<p>AASB Feature (d) – 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?</p> <p>One respondent (S2 – EY) considers this to be the most relevant feature, but suggests referring to 'a resource' rather than 'an asset', so that unidentified resources are appropriately recognised.</p>	<p>Refer to Appendix C</p>
<p>AASB Feature (e) – Does the arrangement transfer control of a payee's underlying asset?</p> <p>One respondent (S2 – EY) notes that the relevance of this factor is not clear.</p>	<p>Refer to Appendix C</p>

SMC 7 - Category 1: Respondents who disagreed with AASB's tax versus licence outcomes	Staff recommendation
<p>Other feedback on the AASB's tax versus licence feature</p> <p>One respondent (S2 – EY) suggests the Board also revise its definition of a tax in AASB 1058 <i>Income of Not-for-Profit Entities</i> to help distinguish between a tax and a licence.</p> <p>One respondent (S4 – SA and TAS Audit Offices) suggests that consistent terminology be used for the terms 'payer' and 'payee' throughout this section and the remainder of ED 283.</p>	<p>Refer to Appendix C</p>

SMC 8 Are you aware of any for-profit public sector licensors issuing non-IP licences? If so, please provide details of these licenses and their accounting treatment, and comment on whether the scope of this Exposure Draft should be extended to for-profit public sector licensors?

SMC 8 Respondents comments	Staff recommendation
<p>Three respondents (S1 – KPMG, S3 – Audit Offices, S4 – SA and TAS Audit Offices) supported the AASB expanding the scope of the guidance to for-profit public sector entities, to enhance the application and comparability within and across government sectors. The following examples of non-IP licences issued by for-profit public sector entities were given:</p> <ul style="list-style-type: none"> • forest permits issued by state forestry corporations for research, hunting, filming, firewood collection, grazing and apiary; • water access licences issued by state water corporations – to extract water from rivers or aquifers for irrigation, industrial or commercial purposes; and • licences required to perform work on or near electrical distribution networks, issued by electricity generators to undertake contestable work. 	<p>Refer to Appendix G</p>

GMC 9 Whether The AASB's Not-for-Profit Entity Standard Setting Framework [draft] has been applied appropriately in developing the proposals in this Exposure Draft?

GMC 9 Respondents comments	Staff recommendation
<p>The majority of respondents (S1 – KPMG, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S5 – HoTARAC) agreed that the framework had been appropriately applied.</p> <p>One respondent (S2 – EY) considered it inappropriate to comment on whether <i>The AASB's Not-for-Profit Entity Standard-Setting Framework</i> has been applied appropriately because the framework is not yet finalised.</p>	<p>Staff does not recommend the Board reconsider the proposals against the Standard-setting framework. Staff are also confident that using the draft version of the framework is still appropriate given:</p> <ul style="list-style-type: none"> (a) the Board approved the draft framework for finalisation with only minor amendment in February 2018; and (b) the framework was largely based on the <i>Process for Modifying IFRS for Not-for-profit Entities</i>, which would be the document the Board would consider otherwise. <p>The Standard-setting framework was subsequently released in May 2018 with minimal changes to that used when developing ED 283. Refer to The AASB's Not-For-Profit Entity Standard-Setting Framework.</p>

GMC 10 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?

GMC 10 Respondents comments	Staff recommendation
<p>Respondents did not raise any issues in relation to this question. Some respondents did raise the interaction with GFS in classifying a licence as a tax, as discussed in SMC 7.</p>	<p>Refer to Appendix C</p>

GMC 11 Whether, overall, the proposals would result in financial statements that would be useful to users?

31 GMC 11 Respondents comments	Staff recommendation
<p>Three respondents (S1 – KPMG, S3 – Audit Offices, S5 – HoTARAC) agree that the proposals would result in financial statements that would be useful to users, primarily as implementation guidance will create consistent accounting across jurisdictions. These comments were made subject to other issues raised previously, in particular on issues relating to whether exclusivity is a performance obligation.</p>	<p>Refer to Appendix C</p>
<p>One respondent (S4 – SA and TAS Audit Offices) is concerned that the proposals in the ED will lead to different interpretations and accordingly differing treatment of public sector non-IP licences and associated income, primarily due to the complexity and difficulty estimating variable consideration up front, as discussed in the responses to SMC 6.</p>	
<p>One respondent (S6 – AHPRA) notes that the proposals would potentially mean that all its revenue is recognised upfront, compared to some being over time at present. The respondent noted that some of its licences require renewal by all licensees on a single date, which would mean that a ‘spike’ would occur in disclosures on monthly reporting.</p> <p>The respondent noted that this change to recognition of revenue will need to be clearly communicated to all stakeholders to explain changes to the annual financial statements, to ensure they are still useful to users.</p>	

32 GMC 12 Whether the proposals are in the best interests of the Australian economy?

GMC 12 Respondents comments	Staff recommendation
<p>No specific comments were given in this regard, with two respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices) noting that they are not in a position to comment.</p>	<p>Staff do not consider any further action is required for the question.</p>

33 GMC 13 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

GMC 13 Respondents comments	Staff recommendation
<p>No specific comments were provided by respondents.</p>	<p>Staff do not consider any further action is required for the question.</p>

34 Other comments

Other Comment – AASB 1059 interactions	Staff recommendation
<p>One respondent (S2 – EY) suggests the AASB exclude all licences that fall within the scope of AASB 1059 <i>Service Concession Arrangements</i> from the scope of AASB 15, to avoid any confusion about which Standard takes precedence for arrangements which could fall within the scope of both Standards.</p> <p>The respondent also notes that the accounting outcome would be significantly different for arrangements which may be very similar to a service concession arrangement, but fall outside the scope of AASB 1059 and is instead accounting for as a licence under AASB 15. For example, under AASB 1059, where the operator constructs an asset for the grantor and receives the right to charge</p>	<p>Refer to Appendix B</p>

Other Comment – AASB 1059 interactions	Staff recommendation
<p>users (licence to charge users) then the grant of a right to the operator model applies and revenue will be deferred (ie a non-financial liability is recognised which is amortised over the term of the arrangement). On the other hand, where the SCA falls out of scope of AASB 1059, but is considered to fall into scope of AASB 15, it may be considered that the promise to transfer to the right to charge users (ie the non IP licence) is satisfied once the asset is constructed and all revenue would be required to be recognised at that time.</p>	
Other Comment – Scoping of licences	Staff recommendation
<p>One respondent (S2 – EY) commented that the proposed wordings of paragraph Aus5.2 would require all licence arrangements of NFP entities to be within the scope of AASB 15 (ie as if all licence arrangements are contracts with customers) even if in substance some of them are not, for eg because they are taxes. The respondent’s view is that the proposals should apply to licence arrangements only where they are indeed contracts with customers (with contracts defined to include those that arise from statutory or legislative requirements).</p>	<p>Refer to Appendix I</p>
Other comment – examples of IP licences	Staff recommendation
<p>One respondent (S3 – Audit Offices) requests further guidance of the types of intellectual property that might exist in the public sector, noting that examples of IP licences provided in AASB 15 paragraph B52 are private sector in nature and not generally applicable to the public sector.</p> <p>One respondent (S4 – SA and TAS Audit Offices) provided outsourced maintenance of data for lands titles (which can include a licence to use that data for commercial purposes) as an example of licences that involve the non-identified assets of a licensor. The respondent requests the AASB clarify whether such arrangement is an IP licence in accordance with AASB 15 (where not a service concession arrangement).</p> <p>One respondent (S2 – EY) is aware of certain licences issued which allow access to data registries that could contain unidentified assets such as customer relationships, trademarks and brand names</p>	<p>Refer to Appendix E</p>

Other comment – additional guidance on terms used	Staff recommendation
<p>One respondent (S3 – Audit Offices) requests additional guidance to clarify the differences between ‘rights over the licensor’s identified assets’, ‘right to perform an activity’, ‘right to use’ and ‘right to access’, as highlighted in ED 283.</p>	<p>Refer to Appendix I</p>

Other Comment – editorials	Staff recommendation
<p>One respondent (S2 – EY) noted the following editorial matters:</p> <ul style="list-style-type: none"> • paragraph G1, in the first box, should refer to ‘is the transaction a licence or a tax’ rather than ‘is it a non-IP licence’; • paragraph G15 should refer to ‘non-IP licence’ rather than just ‘licence’; • paragraph G6 should add ‘where grant of licence is a lease, account for in accordance with AASB 16’; • paragraph G13(c) should be split into (i) distinct and (ii) not distinct; • paragraph G14 should give examples of when a licence would be issued as part of a bundle of goods or services; • paragraph IE6 – the first sentence should say “satisfies its performance obligations related to the licence” rather than referring to the “transferring of the licence” • paragraph IE7 – the respondent requestions the AASB: <ul style="list-style-type: none"> ○ provides an example of a licence with revenue recognised over time; ○ clarifies if the arrangement is a licence or a tax; and ○ whether it can transfer goods and services to other beneficiaries and still be a performance obligation. • paragraph IE8 – is the licence a licence or a tax? 	<p>Refer to Appendix I</p>