

## **Income from Non-Exchange Transactions – Project Status Report: January 2011**

### **Introduction**

This report includes a one-page summary of the project milestones (historical and prospective) and a summary of the Boards' redeliberations on the issues in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*.

The timetable for completing this project is extremely ambitious, in line with the objective to substantially finalise a revised ED in June 2011:

- in light of institutional developments in New Zealand; and
- in order to issue the revised ED on a contemporaneous basis with the IFRS on Revenue from Contracts with Customers (planned to be issued in June 2011).

The ability to meet that timetable will depend on staff resources and on commitments to other high-priority projects.

**Project Milestones (Historical and Prospective [Aspirational Plan])**

Date / Period	Milestone / Activity
June 2009	AASB ED 180/FRSB ED 118 issued for comment by 30 November 2009. The ED is based very closely on IPSAS 23 <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> . The only significant differences between the requirements of IPSAS 23 and those proposed in the ED are the requirements for the measurement of financial assets and financial liabilities and the transitional provisions.
March – Dec 2010	AASB and FRSB partly complete their redeliberations of the proposals in the ED
Feb – March 2011	Plan is for the AASB and FRSB to complete their redeliberations of the proposals in the ED
April 2011	Pre-ballot draft of a revised ED is considered out of session by the AASB and FRSB, based on the latest draft of the IFRS on Revenue
May 2011	Ballot draft of a revised ED is considered out of session by the AASB and FRSB, based on the latest draft of the IFRS on Revenue
June 2011	IASB expected to issue an IFRS on Revenue from Contracts with Customers; revised ED is trued up to the final text of that IFRS  AASB and FRSB consider and resolve sweep issues arising in relation to the ballot draft of a revised ED
July/August 2011	Joint revised ED is issued, together with a media release. Communications plan is implemented for the revised ED
Fourth quarter 2011	Comment deadline for revised ED; AASB and New Zealand External Reporting Board (XRB) commence consideration of submissions on revised ED in December [this is subject to the XRB agreeing to continue working on this project with the AASB when the XRB replaces the FRSB]
First half 2012	AASB and XRB redeliberate proposals in revised ED in light of the submissions and other feedback <sup>1</sup> received  AASB and XRB issue joint Standard

Note: A report on developments in the IASB’s project to develop an IFRS on Revenue from Contracts with Customers will be prepared for each Board meeting at which this project is considered, and as a complement to each pre-ballot or ballot draft of a revised ED on this topic.

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<sup>1</sup> e.g., via Roundtables

### Summary of Board redeliberations (historical and prospective [planned])

<b>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</b>	<b>Status of issue (where applicable, Boards' tentative decision)</b>	<b>Date for Boards to consider</b>
<b><i>Project Scope</i></b>		
<p>Whether to confirm the ED's proposed scope of the future Standard. The ED applied to non-exchange transactions (other than those giving rise to a business combination) of PBEs/NFPs.</p>	<p>The ED defined non-exchange transactions as transactions in which "an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange".</p> <p>The Boards have yet to commence redeliberating the project's scope.</p> <p>When discussing other aspects of this project, some Board members have argued that the distinction between exchange and non-exchange transactions should be irrelevant to whether a transaction gives rise to a liability or income (or a combination of both). A staff paper is to address whether the exchange/non-exchange distinction should be retained, and whether the revised ED should apply only to PBEs/NFPs.</p>	Feb 2011
<p>Whether to retain the ED's focus on income, rather than revenue</p>	<p>The ED addressed 'income', rather than 'revenue', from non-exchange transactions. Under IFRSs, revenue is limited to income from ordinary activities. The Boards decided to conform to the scope of IPSAS 23. The IPSASB's definition of revenue is equivalent to the definition of income in IFRSs. Staff suggest reviewing this scope aspect in the light of the Boards' forthcoming decision on how closely the revised ED should be based on the IFRS on Revenue from Contracts with Customers.</p>	March 2011

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(c) Whether further guidance or illustrative examples are required in distinguishing exchange and non-exchange transactions or components of transactions, e.g. for local government rates	This issue is to be reviewed once a scope decision is made on whether the accounting should depend on whether a transaction is exchange or non-exchange	March 2011
<b><i>Definition and Recognition of Liabilities and Other Elements</i></b>		
(d) The definition and treatment of conditions on transferred assets	<p>The ED proposed that a liability arises from a non-exchange transaction only if the transaction gives rise to a 'condition on transferred assets'. The ED defines such conditions as "stipulations that specify that the future economic benefits embodied in the asset are required to be consumed by the recipient as specified or future economic benefits must be returned to the transferor" (i.e., both a performance obligation and a return obligation must exist).</p> <p>In March and October 2010, the Boards tentatively decided to reject this proposal. They tentatively decided either a performance obligation or a return obligation is a liability if it meets the general criteria for a liability (see section below). They also tentatively decided that a return obligation accompanying a performance obligation is an indicator of the enforceability of that performance obligation.</p> <p>Therefore, no further action is planned on this issue.</p>	Already resolved

<b>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</b>	<b>Status of issue (where applicable, Boards' tentative decision)</b>	<b>Date for Boards to consider</b>
<p>General criteria for identifying liabilities arising from non-exchange transactions (relates to Issue (d))</p>	<p>In March and October 2010, the Boards tentatively decided that:</p> <ul style="list-style-type: none"> <li>• the principles for identifying a performance obligation should be based on the principles being developed by the IASB and FASB in their joint project to develop a Standard on Revenue from Contracts with Customers;</li> <li>• the IASB's guidance on applying those principles should be modified for PBEs/NFPs to express those principles in a sector-neutral manner;</li> <li>• a promise to provide goods or services is a performance obligation if: <ul style="list-style-type: none"> <li>○ it involves a sufficiently specific stipulation regarding the entity's promised performance; and</li> <li>○ it is enforceable (i.e., the transferor is capable of enforcing the promise by legal or equivalent means); [see the Appendix to this Status Report for details of the Boards' tentative decisions regarding when these two criteria would be satisfied] and</li> </ul> </li> <li>• unless a performance obligation exists in relation to transferred assets, the designation of a transfer as relating to a particular time period does not give rise to a present obligation.</li> </ul> <p>No further action is planned on this issue.</p>	<p>Already resolved</p>



<b>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</b>	<b>Status of issue (where applicable, Boards' tentative decision)</b>	<b>Date for Boards to consider</b>
(m) Whether recognition requirements are needed in respect of contributions from owners and distributions to owners generally	The Boards have yet to redeliberate this issue.	March 2011
(f) Permitting, but not requiring, the recognition of contributions of services	The Boards have yet to redeliberate this issue.	March 2011
<b><i>Unit of Account for Performance Obligations</i></b>		
The basis that should be adopted for identifying separate performance obligations (the 'unit of account' in respect of such obligations)	<p>In October 2010, the Boards tentatively decided that the proposed basis for identifying separate performance obligations in the IASB ED on Revenue from Contracts with Customers should be modified for application by PBEs/NFPs (for the purposes of this project).</p> <p>The IASB's proposed unit of account relates to sales transactions and profit margins. Specifically, the IASB ED says, if an entity promises to transfer more than one good or service, it accounts for each promised good or service as a separate performance obligation only if it is distinct. It says a good or service, or a bundle of goods or services, is distinct if either:</p> <ul style="list-style-type: none"> <li>(a) the entity, or another entity, sells an identical or similar good or service separately; or</li> <li>(b) the entity could sell the good or service separately because it both has a distinct function and a distinct profit margin.</li> </ul> <p>The Boards directed staff to compare identifying the unit of account for PBEs/NFPs as each promise to provide goods or services (each separate 'contract element') with the IASB's proposed unit of account.</p>	March 2011



<b>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</b>	<b>Status of issue (where applicable, Boards' tentative decision)</b>	<b>Date for Boards to consider</b>
<b>Disclosures</b>		
Disclosures generally	<p>The Boards have yet to redeliberate this issue.</p> <p>This step will involve reviewing the disclosures in the IASB Revenue ED and identifying/analysing PBE/NFP issues—including whether guidance needs to be given on how some IFRS disclosure requirements would be applied to items within this project's scope.</p> <p>Consideration would need to be given to whether to retain some or all of the proposed disclosures in ED 180/ED 118</p>	March 2011
(g) Requiring disclosure of the nature and type of major classes of services in-kind received (paragraph 108) – IPSAS 23 encourages but does not require such disclosure	<p>The Boards have yet to redeliberate this issue.</p> <p>This issue will be considered in conjunction with Issue (f).</p>	March 2011
Reduced disclosures for Tier 2 entities	<p>The Boards have yet to consider this issue.</p> <p>The aim is to address Tier 1 disclosure issues first, and then send RDR proposals to the AASB's RDR Subcommittee.</p>	March/ April 2011
<b>Other Specific Issues Raised in ED</b>		
(k) The exclusion of for-profit government departments from the scope of the ED – are requirements for such entities still required?	<p>The Boards have yet to redeliberate this issue.</p> <p>The analysis of this issue will be influenced by the Boards' decisions on the broader issue of the Scope of the revised ED (see page 3)</p>	March 2011

<b>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</b>	<b>Status of issue (where applicable, Boards' tentative decision)</b>	<b>Date for Boards to consider</b>
(l) The retention of requirements for restructures of administrative arrangements	The Boards have yet to redeliberate this issue.	March 2011
(n) The role of AASB Interpretation 1038 once a Standard based on the ED is issued	The Boards have yet to redeliberate this issue.	March 2011
(j) Prospective application per the transitional provisions	The Boards have yet to redeliberate this issue.	March 2011
<b><i>ED's Specific Matters for Comments to be Reviewed for Other Issues</i></b>		
(a) The Boards' approach of developing the proposals based on IPSAS 23	<p>This question was broadly addressed by the Boards when they rejected the IPSAS 23 notion of a liability proposed in the ED ('condition on transferred assets').</p> <p>Staff are to identify issues covered by IPSAS 23 but not the draft IFRS on Revenue from Contracts with Customers (over and above those specifically mentioned above) and determine whether separate papers need to be prepared for the Boards to deliberate on respondents' comments. This process responds to the Boards' tentative decision in March 2010 that guidance in IPSAS 23 consistent with the principles for identifying an enforceable performance obligation being developed by the IASB and FASB should also be used.</p>	March 2011

<b>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</b>	<b>Status of issue (where applicable, Boards' tentative decision)</b>	<b>Date for Boards to consider</b>
(p) Whether, overall, the proposals would result in financial statements that would be useful to users	Respondents' comments reflected their rejection of the IPSAS 23 notion of a liability ('condition on transferred assets'), which has been considered by the Boards, and difficulties in distinguishing exchange and non-exchange transactions (which will be addressed in the issue on the scope of the proposed Standard). Staff will review respondents' comments for any other significant concerns and, if any are identified, prepare separate paper(s) in respect of them.	March 2011
(q) Whether the proposals are in the best interests of the Australian economy	See comments on question (p)	March 2011
(s) Whether the proposals are in the best interests of users of general purpose financial statements of public benefit entities in New Zealand	See comments on question (p)	March 2011
(t) Whether there are any regulatory issues or other issues arising in the New Zealand environment that may affect the implementation of the proposed requirements, particularly any issues relating to: (i) public benefit entities; or (ii) the Privacy Act 1993	The Boards have yet to redeliberate this issue. Respondents' comments relate to the current review of the Financial Reporting Framework in New Zealand.	March 2011
(b) Whether there are any differences between Australia and New Zealand that would override the Boards' desire for converged Standards for non-exchange transactions	The Boards have yet to redeliberate this issue. Few concerns were raised in the submissions. However, the question should be re-examined by the Boards when their technical decision making is practically completed, taking account of possible changes to reporting requirements for PBEs in New Zealand.	March 2011

<b>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</b>	<b>Status of issue (where applicable, Boards' tentative decision)</b>	<b>Date for Boards to consider</b>
<i>Issues Regarding the Implementation of the Boards' Decisions on Other Issues</i>		
Nature and extent of additional guidance	<p>The Boards have yet to redeliberate this issue except in relation to some PBE/NFP modifications of the IASB's proposed guidance for revenue recognition in contracts with customers (see below for details). This guidance should generally evolve from each technical issue considered by the Boards.</p> <p>In October 2010, the Boards tentatively decided that:</p> <ul style="list-style-type: none"> <li>• the IASB's guidance on applying the principles being developed for a Standard on Revenue from Contracts with Customers should be modified for PBEs/NFPs, to express those principles in a sector-neutral manner;</li> <li>• the IASB's proposed basis for identifying separate performance obligations should be modified to reflect the PBE/NFP environment (see page 6); and</li> <li>• clarification should be included, in a PBE/NFP context, of: <ul style="list-style-type: none"> <li>○ the meaning of 'customer' and the relevance of the notion of customer in the IFRS on Revenue;</li> <li>○ how specific another party's enforceable right to receive goods or services must be in order to qualify as a performance obligation of the entity; and</li> <li>○ the meaning of 'enforceability' in relation to an enforceable promise to provide goods or services to other parties.</li> </ul> </li> </ul>	March 2011

<b><i>Topic and Issue (where applicable, the letter of the Specific Matter for Comment in the ED is identified)</i></b>	<b><i>Status of issue (where applicable, Boards' tentative decision)</i></b>	<b><i>Date for Boards to consider</i></b>
Proposed PBE/NFP modifications to Interpretations to be included in revised ED	The Boards have yet to consider this issue.	March 2011
(o) & (r) The proposed amendments to other Australian and New Zealand Accounting Standards, as set out in Appendices A and B	The Boards have yet to redeliberate this issue.	April 2011

## APPENDIX

### **Summary of Tentative Decisions of the AASB and FRSB regarding a ‘Sufficiently Specific Stipulation’ and ‘Enforceability of a Performance Obligation by Legal or Equivalent Means’—referred to in page 5 of Report**

#### **Introduction**

The Boards tentatively decided in October 2010 that a promise to provide goods or services is a performance obligation if:

- it involves a sufficiently specific stipulation regarding the entity’s promised performance; and
- it is enforceable (i.e., the transferor is capable of enforcing the promise by legal or equivalent means).

See below for details.

#### **‘Sufficiently Specific Stipulation’**

In relation to the characteristics of a ‘sufficiently specific stipulation’, the Boards tentatively decided that a promise to provide goods or services must be specified as to:

- (a) the nature or type of goods or services; and
- (b) one or more of:
  - (i) the cost or value of the goods or services;
  - (ii) the volume of the goods or services; and
  - (iii) the period over which the goods or services must be provided. A stipulation that a transfer of assets to a PBE/NFP in a non-exchange transaction relates to a particular time period is, of itself, insufficient to meet this criterion.

#### **‘Enforceability by Legal or Equivalent Means’**

In relation to the need for a promise to be enforceable by legal or equivalent means, the Boards tentatively decided that:

- (a) a right to enforce specific performance would ensure that the promise is enforceable;
- (b) neither a return obligation nor a capacity to impose a severe penalty for non-performance would of itself be sufficient for a performance obligation to exist. However, if either of them accompanies a promise to provide goods or services, it indicates the performance obligation is enforceable. In some environments, where rights of specific performance are unavailable or unnecessary, a return obligation or a capacity to impose a severe penalty may be the key indicator of the enforceability of a promise to provide goods or services;

- (c) a transferor's capacity or threat to withhold future funding from a transferee if stipulated goods or services are not provided would not of itself give rise to enforceability of the promise to provide those goods or services, unless that future funding was a contractual promise (in which case, withholding the funding constitutes the cancellation of a receivable, and thus is indistinct from the return of a transferred asset covered by (b) immediately above);
- (d) a directive given by a Minister or government department to a public sector entity to provide specified goods or services gives rise to a promise that is enforceable by legal or equivalent means;
- (e) it would be inappropriate to identify a control relationship between the transferor and transferee as a mechanism for ensuring that a promise to provide goods or services is enforceable by legal or equivalent means; and
- (f) a PBE's/NFP's statement of intent to spend money or consume resources in particular ways may be the subject of budget-to-actual reporting to discharge accountability for the raising and expenditure or consumption of resources. However, that statement of intent and related accountability mechanisms do not of themselves make a promise to provide goods or services enforceable by legal or equivalent means. Enforceability of a promise requires the existence of other parties with the power to enforce the promise by legal or equivalent means.