



Income of Not-for-Profit Entities

Project summary

The objective of this domestic project was to develop:

- (a) a not-for-profit sector Accounting Standard to provide a basis for accounting for asset acquisitions where the consideration for the asset was significantly less than fair value and, where needed, develop not-for-profit sector specific guidance; and
- (b) guidance to assist in the implementation of AASB 9 and AASB 15.

This project was completed in December 2016 with the issue of:

- AASB 1058 *Income of Not-for-Profit Entities*;
- AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*; and
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*.

Project contacts

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Project priority: Complete

Issued consultation documents

- ED 260 *Income of Not-for-Profit Entities*
- Fatal flaw draft AASB 10XX *Income of Not-for-Profit Entities* (September 2016)
- Fatal flaw draft AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (September 2016)

AASB outreach

- Education sessions
- Roundtable sessions
- ED 260 comment letters
- Comment letters on fatal flaw draft Standards

Project status

- Complete
- Education activity in 2017

Board deliberations

- AASB Action Alert Update and Board Papers

- Hot Topics
- Link to ED 260 webinar
- Link to AASB 1058
- Link to AASB 2016-7
- Link to AASB 2016-8

AASB communications

- Media Release (20 December 2016)
- AASB Extra (forthcoming)

Latest project news

Date	News
20 December 2016	Media release: Simplifying Income Recognition for Not-for-Profit Entities
15 November 2016	November 2016 Action Alert
1 September 2016	August 2016 Action Alert

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

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November 2016 The Board made the following tentative decisions regarding its pre-ballot draft Standards AASB 10XX *Income of Not-for-Profit Entities* and AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (implementation guidance for not-for-profit (NFP) entities in relation to AASB 15 *Revenue from Contracts with Customers*):

Transfers to enable an entity to acquire or construct a non-financial asset to be controlled by the entity

- (a) to require that the non-financial asset to be acquired or constructed by the entity is an asset that will be recognised in accordance with the appropriate Australian Accounting Standard. Consequently, Example 2C of AASB 2016-X will be revised to result in the immediate recognition of income for the grant because the research asset being developed cannot meet the asset recognition criteria of AASB 138 *Intangible Assets*;
- (b) to confirm that the accounting specified for transfers to acquire or construct a non-financial asset applies only to the transfer of a financial asset. Transfers of non-financial assets, such as building materials or land, will not qualify for the specified accounting treatment;

Transition of prior asset acquisitions for more than a nominal amount but significantly less than fair value

- (c) for cost/benefit reasons to extend transition relief to address asset acquisitions prior to the implementation of AASB 10XX where the consideration was significantly less than fair value (except for lease arrangements, for which the Board confirmed the current draft transition requirements). Under this approach, entities would not be required to determine whether assets currently carried at cost were acquired for consideration significantly less than fair value. Moreover, entities would not be required to remeasure those assets on transition to AASB 10XX.

Amendments to AASB 102 Inventories

- (d) to amend the consequential amendment (in AASB 10XX, Appendix D) for the initial measurement of inventories acquired for consideration that is significantly less than fair value principally to enable the entity to further its objectives. Such inventories would be measured at current replacement cost, to be consistent with the current measurement requirements of AASB 102, instead of fair value. The Board decided to consider fair value measurement as part of a future project;

Allocating the transaction price to performance obligations

- (e) to clarify the rebuttal of the presumption in AASB 2016-X that the transaction price for an arrangement within the scope of AASB 15 is wholly related to the transfer of promised goods or services by deleting the requirement that the element of the transaction price not related to the transfer of the goods or services be separately identifiable.

The Board will proceed to vote on the Standards by mid-December 2016. The proposed effective date continues to be annual reporting periods beginning on or after 1 January 2019.

1.0 Cover Memo

1.1 Staff issues paper - Income of NFPs - Capital grants

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- 1.2 Staff issues paper - Transition of recognised assets
- 1.3 AASB 10XX *Income of Not-for-Profit Entities* [clean copy]
- 1.4 AASB 10XX *Income of Not-for-Profit Entities* [marked up copy]
- 1.5 AASB 2016-X *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-profit Entities* [clean copy]
- 1.6 AASB 2016-X *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-profit Entities* [marked up copy]
- 1.7 AASB 2016-W *Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities*
- 1.8 Comment letters received on fatal-flaw draft
- 1.10 Benefits of AASB 10XX and estimation of regulatory burden

August 2016

The Board made the following tentative decisions regarding its draft Standard AASB 10XX *Income of Not-for-Profit Entities* and implementation guidance for not-for-profit (NFP) entities in relation to AASB 15 *Revenue from Contracts with Customers*:

Effective date

- (a) to defer by one year the effective date of AASB 15 (including the NFP implementation guidance) and AASB 10XX for public sector NFP entities and private sector NFP entities, from annual reporting periods beginning on or after 1 January 2018 to 1 January 2019;

Public fatal-flaw review process

- (b) a revised draft Standard AASB 10XX and implementation guidance will be published on the AASB website in September for a fatal-flaw review process;

Asset measurement guidance

- (c) to remove the asset recognition and measurement guidance in AASB 10XX and insert specific Australian guidance into relevant Australian Accounting Standards that where the consideration relating to the asset received is significantly less than the fair value of that asset to enable the entity to further its objectives, the asset must be fair valued in accordance with AASB 13 *Fair Value Measurement*. (This currently applies only when the asset is acquired at no or nominal cost). In such cases, the entity will need to refer to AASB 10XX to determine how to account for the difference between the transaction price and the fair value of the asset, which may be a contribution by owners, a liability, a performance obligation under AASB 15 or income. Acquisitions of assets through a trade discount or distress sale will not be captured for the purposes of AASB 10XX;

Leases with significantly below-market terms and conditions

- (d) to clarify that the right-of-use asset is to be measured at fair value, whether a finance lease under AASB 117 or a right-of-use asset under AASB 16, and the lease liability is measured in accordance with AASB 117 or AASB 16 (typically at the much lower present value of the lease payments). The difference will generally be income in accordance with AASB 10XX or in rare circumstances a performance obligation in accordance with AASB 15;

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- (e) to provide transition guidance for entities that early adopt AASB 10XX to:
 - (i) permit entities to continue to apply the requirements of AASB 117 Leases to operating leases until such time as the entity adopts AASB 16 Leases; and
 - (ii) require entities to measure the lease asset under existing finance leases and new finance leases entered into prior to adopting AASB 16 at the fair value of the right to use that asset in accordance with AASB 13. The date at which fair value is measured will depend on which AASB 10XX transition option an entity elects to apply. Entities that adopt AASB 10XX early in conjunction with AASB 117 will not be required to remeasure the fair value of existing finance leases on transition to AASB 16;
- (f) to insert transition guidance into AASB 16 to ensure that:
 - (i) entities measure the right-of-use asset arising from operating leases at fair value;
 - (ii) entities measure the right-of-use asset arising from finance leases at fair value. However, entities that early adopted AASB 10XX would be permitted to measure the right-of-use asset at the carrying amount of the finance lease asset immediately prior to transition to AASB 16; and
 - (iii) the date at which fair value is measured will depend on which AASB 16 transition option an entity elects to apply;
- (g) to provide a portfolio measurement approach as a practical expedient on transition to AASB 16.

Donated inventory

- (h) as a practical expedient, an entity may assess the materiality of each inflow of inventory acquired for no cost for recognition, on the basis of an individual item without reassessment at an aggregate or portfolio level. Entities would be encouraged to disclose information about their reliance on unrecognised donated inventories;

Volunteer services

- (i) to confirm the approach proposed in ED 260 that local governments, government departments, general government sectors and whole of governments will recognise volunteer services if the fair value of those services can be measured reliably and the services would have been purchased if they had not been donated. Furthermore, any entity can elect to recognise volunteer services if their fair value can be measured reliably, and an entity should consider disclosing recognised volunteer services as a category of income;
- (j) to encourage entities to disclose information about their reliance on volunteer services, recognised and unrecognised;

Licences

- (k) to amend the scope of AASB 10XX to exclude licences outside the scope of AASB 15. Under this approach, an entity would apply AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors in determining its accounting policies for such licences, which might result in applying the licence provisions of AASB 15 by analogy or the requirements of AASB 10XX;

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- (l) noted that a separate project to research the types of government licences and their accounting treatment under AASB 10XX and AASB 15 is to be considered as part of the agenda consultation process based on AASB Invitation to Comment ITC 34;

Disclosures

- (m) to confirm the disclosures proposed in ED 260 for the disclosure of parliamentary appropriations;
- (n) to include additional disclosure requirements for 'capital grants' that are consistent with the disclosures in AASB 15;
- (o) to encourage entities to disclose information about externally imposed restrictions, with examples of ways this could be done, such as:
 - (i) disclosure of assets to be used for specified purposes;
 - (ii) disclosure of reserves divided into restricted and unrestricted amounts;
 - (iii) disclosure of total comprehensive income divided into restricted and unrestricted amounts, either on the face of the statement of performance or in the notes; or
 - (iv) a combination of these disclosures;

Disclosures in AASB 15

- (p) not to make any specific disclosure reductions for Tier 2 NFP entities applying the Reduced Disclosure Requirements; and
- (q) not to make any specific disclosure reductions for Tier 1 NFP entities, including the Australian Government and State, Territory and Local Governments.

3.0 Cover Memo: Not for Profit Entities

3.1 Income of NFP Entities

3.1.1 Accounting Standard AASB 1004 *Contributions*

3.2 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Revenue from Contracts with Customers

3.3.1 Staff Paper: Transition relief for operating leases

3.3.2 Staff Paper: Sweep issue: Measuring the lease liability and transition of a right-of-use asset/leased asset

3.3.3 Staff Paper: Leases: Lease-by-lease vs portfolio assessment

3.4 Staff Paper: Donated Inventories

3.5 Staff Paper: Redeliberations – treatment of volunteer services

3.6.1 Staff Paper: Disclosure of compliance with parliamentary appropriations and other related authorities for expenditure

3.6.2 Staff Paper: Potential AASB10XX Disclosures

3.6.3 Staff Paper: AASB 15 Disclosure Considerations

3.7 Staff Paper: Effective Date

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3.7.1 Letter from Acting Chair of Heads of Treasuries Accounting and Reporting Advisory Committee dated 15 July 2016

3.9 Staff Paper: Licences

3.10 Staff Paper: GAAP/GFS Differences

3.11 Staff Paper: Due Process

June 2016

The Board tentatively decided:

Project objective

- (a) to re-express the projective objective as “to develop a not-for-profit sector Accounting Standard that provides a basis for accounting for resource inflows and, where needed, develop not-for-profit sector specific guidance”.

The not-for-profit sector Standard [draft] AASB 10XX *Income of Not-for-Profit Entities* will, as the ‘starting point’ for entities in this sector:

- (i) provide guidance as to when control of a resource is obtained;
 - (ii) include ‘signposts’ to relevant existing Accounting Standards that entities should apply; and
 - (iii) replace the income recognition requirements of AASB 1004 *Contributions* with new income recognition principles for transactions that are not within the scope of existing Standards (e.g. AASB 15 *Revenue from Contracts with Customers*);
- (b) to develop guidance to assist in the implementation of AASB 15;

Perpetual endowments

- (c) not to develop any new principles in relation to perpetual endowments but, rather, include examples that clearly refer back to the principles established in AASB 10XX;
- (d) to include guidance in relation to determining whether an entity has control of an endowment:
- (i) an example where the asset is the cash received and an example where the asset is the ‘right to investment income’;
 - (ii) an example of when the NFP entity does have the ability to direct the use of a resource and an example of when it does not;
 - (iii) guidance that analogises to the Framework definition of an asset;
 - (iv) a signpost to AASB 9 *Financial Instruments* in relation to control for individual financial assets;
 - (v) a signpost that if an entity receives an inflow of a resource as a trustee, the requirements of AASB 10 *Consolidated Financial Statements* are relevant to determine whether the entity has control. Staff to draft examples of when the NFP entity holds the ‘asset’ as trustee, when the ‘asset’ is held by an external independent trustee and the NFP entity is the sole beneficiary and, for completeness, an example when the NFP entity itself holds the ‘asset’; and
 - (vi) two examples, one example where there is no specific obligation as the basis for revenue deferral and another example where there is;
- (e) to include guidance that the fair value of the rights to future income would normally be equal to the face value of the perpetual endowment;

Capital grants

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- (f) grants of cash that must be used to acquire or construct a non-financial asset, and have a return obligation if not spent appropriately, are to be accounted for within the scope of AASB 10XX and a new principle developed to clarify the accounting for these arrangements. The principle will express the view that where there is a return obligation and clear requirements to build or construct an asset to specifications under the grant, and in substance the arrangement is a grant of a non-financial asset, there are obligations attaching to the receipt of the cash and, as such, no revenue is recognised until such time as the obligations are satisfied (e.g. as the non-current asset is constructed). As there are arguments that there is no transfer of goods and services in these arrangements, the Board decided that using AASB 15 may not obtain the outcome of recognising the cash and deferred income on initial recognition. Accordingly AASB 10XX will draw upon the principles of AASB 15 but without the need for a transfer of goods or services to a customer;

- (g) to develop examples illustrating the revenue recognition principle above;

Transition

- (h) that comparative information will be encouraged, but not required, in the year of first application;
- (i) to ensure existing grants that have been fully recognised in income need not be reconsidered (unless an entity chooses to do so), include an 'Aus' paragraph in AASB 15 that for a NFP entity on transition "a completed contract is a transaction for which the entity has recognised all of the revenue in accordance with AASB 1004" and that a similar 'Aus' paragraph refer to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- (j) for existing peppercorn leases:
 - (i) that AASB 10XX replicate the practical expedients in AASB 16 *Leases*; and
 - (ii) the lessee have an option to measure the carrying amount of the right-of-use asset at the date of initial application of AASB 10XX at fair value. The Board did not conclude whether this would be on a lease-by-lease basis or another basis and asked staff to research this issue and bring back to the next meeting. The finalised Standard would 'signpost' to the requirements of AASB 13 *Fair Value Measurement* in relation to the effect of restrictions on fair value, and AASB 16 *Property, Plant and Equipment* in relation to the definition of a lease.

3 Cover Memo: Not for Profit Entities

3.1 Objectives Income of NFP entities

3.2 Perpetual endowment Income of NFP entities

3.3 Capital grants Income of NFP entities

3.3A Addendum to 3.3 Capital Grants

3.4 Transition Income of NFP entities

April 2016

When considering an enforceable contract that has elements that may not be attributed to a performance obligation for the transfer of goods and/or services (eg attending a charity dinner), the Board tentatively decided:

- (a) there is a rebuttable presumption that all consideration is allocated to the performance obligation unless part of the consideration is not refundable (ie all

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consideration will be allocated to the performance obligation and revenue recognised as the performance obligation is satisfied);

- (b) an indicator to rebut this presumption is that the element not related to the performance obligation is separately identified; for example, because the not-for-profit entity has the status of deductible gift recipient and the customer can claim a tax deduction for the 'donation'.

The Board also tentatively decided that the definition of 'contribution by owners' should be considered as part of the agenda consultation process, rather than as part of the Income of Not-for-Profit Entities project. In the interim, the requirements in AASB 1004 *Contributions* be should retained.

Consideration of control of perpetual endowments was deferred to the June AASB meeting.

5.1 Staff Paper : Redeliberations – control of bequests, determining a separately identifiable donation component in a contract, and contributions by owners

February 2016

The Board tentatively decided, in the context of recognising revenue when receiving assets:

- (a) moral obligations and economic compulsion alone are not liabilities;
- (b) arrangements between sovereign States or between an asset provider and recipient, requiring mutual agreement on how funds/assets can be used, are enforceable by an administrative process and therefore in the scope of AASB 15 *Revenue from Contracts with Customers*;
- (c) Enforceable contracts including transfers of goods and services are in the scope of AASB 15; and
- (d) Constructive obligations, arising from non-enforceable agreements outside the scope of AASB 15, should only be recognised when there is no realistic alternative to settling and there is a sufficiently specific promise, consistent with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The Board does not expect that this would give rise to many deferrals.

Staff will develop illustrative examples to explain these tentative decisions.

12 Memorandum re Income of NFP Entities Redeliberations

12.1 Staff Paper: Enforceable Agreements

12.2 Staff Paper: Sufficiently Specific

December 2015

The Board tentatively decided:

- (k) that the 'sufficiently specific' principle in ED 260 *Income of Not for Profit Entities* be retained to determine when a performance obligation that would permit deferral of revenue recognition exists. The key element is being able to determine whether or not a performance obligation has been satisfied;
- (l) to explore further the link between 'sufficiently specific' and 'distinct' (as used in AASB 15 *Revenue from Contracts with Customers*) and in the context of an explicit and/or implied promises. AASB 15 requires that, to qualify as a performance obligation, the goods or services in an entity's promise to transfer goods or services in a contract with a customer must be distinct and therefore that promise is separately identifiable from other promises in the contract;
- (m) that a transfer to a not-for-profit (NFP) entity that has a single purpose charter (e.g.,

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counselling service) would not automatically result in such a promise meeting the 'sufficiently specific' criterion – however if the conditions enabled a determination of when the service had been provided the criterion could be met;

- (n) to retain the notion that a transferor's stipulation to use the transferred funds over a particular time period, without any other conditions, does not meet the 'sufficiently specific' criterion as time is not a good or service; and
- (o) to rewrite paragraph IG13 of Appendix E of ED 260, provide examples and refer to the role of an acquittal process in assessing progress towards satisfaction of the performance obligation.

The Board asked staff to bring back to the next Board meeting draft wording and examples to assist the Board in finalising their views in relation to 'sufficiently specific'. The Board noted that at the next Board meeting it would continue its redeliberation of when an agreement is enforceable.

11.1 Staff Paper: Sufficiently Specific

October 2015

The Board continued its consideration of the feedback on Exposure Draft (ED) ED 260 *Income of Not-for-Profit Entities* and a draft project plan. The Board noted the majority of comment letter concerns related to the enforceability and 'sufficiently specific' characteristics as these determine whether income from grants can be deferred. The Board tentatively decided:

- (a) to reconfirm its decision to exclude not-for-profit (NFP) entities from AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. The Board's decision reflected:
 - (i) the importance and quantum of grants and donations to the NFP sector relative to the for-profit sector;
 - (ii) recent international standards developments on this issue not being consistent with the requirements of IAS 20 (including *IFRS for SMEs* adopting a performance obligation approach, US and UK developments);
 - (iii) IAS 20 only covering a subset of transactions relevant to the NFP public sector; and
 - (iv) consistency with the Conceptual Framework;
- (b) to clarify the proposed Implementation Guidance to AASB 15 *Revenue from Contracts with Customers* in describing goods and services; and
- (c) to clarify the proposed guidance in relation to enforceability, giving particular emphasis to:
 - (i) consequences of non-performance; and
 - (ii) substance of the arrangement, rather than whether it is documented or what it is called.

The Board agreed to consider further at the next Board meeting whether enforcement can occur through other than legal means (e.g. constructive obligations), and if so how this should be addressed.

The Board also noted that examples provided by respondents could be used to further examine the topics of bequests in perpetuity, including control of the asset, and whether

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	<p>there are sufficiently specific terms to create a performance obligation.</p> <p>The Board asked staff to bring back to the next Board meeting draft wording and examples for Board consideration to assist in finalising their views in relation to these issues.</p> <p>The Board deferred discussion of ‘sufficiently specific’ to the next Board meeting. The Board also noted the importance of having a Standard finalised in sufficient time for grantors to implement before the underlying Standard, AASB 15, applies (i.e. for periods beginning on or after 1 January 2018).</p> <p><u>13.0</u> Memorandum: Income of Not-for-Profit Entities</p> <p><u>13.1</u> Staff paper – Staff Summary of Comment Letters and Outreach</p> <p><u>13.2</u> Staff paper – Redeliberation – Scope, Enforceable Agreement and Sufficiently Specific</p>
September 2015	<p>The Board considered the feedback on ED 260 <i>Income of Not-for-Profit Entities</i> proposals and a draft project plan. The Board noted the high level of support for the proposal to remove the current income recognition requirements based on the reciprocal/non-reciprocal transfer distinction in AASB 1004 <i>Contributions</i>.</p> <p>The Board noted that some constituents supported the approach described in AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> and that the Basis for Conclusions to ED 260 was not comprehensive as to the reasons why the Board had not proposed this approach. The Board directed staff to bring to the October Board meeting a paper identifying those reasons and how those reasons might be incorporated into the Basis for Conclusions.</p> <p>In addition, staff expect the following topics will be discussed at the October Board meeting:</p> <ul style="list-style-type: none">(a) a staff analysis of Questions 6-8 and 10-13 from ED 260;(b) redeliberation of the performance obligation concepts of enforceable agreement and sufficiently specific; and(c) the draft project plan, updated as necessary for any issues identified by staff in their analysis of the feedback received on Questions 6-8 and 10-13 of ED 260. <p>The Board also noted the importance of maintaining good communication with the ED 260 respondents and those who would be affected by any change to the current requirements and that a range of communication approaches should be used.</p> <p><u>14.1</u> Memorandum from Mark Shying dated 18 August 2015 re Income NFP Entities</p> <p><u>14.2</u> Staff Issues Paper: Staff Collation and Analysis of Comment Letters and Outreach ED 260 <i>Income of NFP Entities</i></p> <p><u>14.3</u> Draft Project Plan for Income from Not-for-Profit Entities</p> <p><u>14.4</u> Comment letters on ED 260 <i>Income of NFP Entities</i></p>
February 2015	<p>Key tentative Board decisions regarding the draft ED on Income from Transactions of Not-for-Profit Entities include:</p> <ul style="list-style-type: none">(a) the ED should be structured to indicate that separate Standards would be issued in relation to:<ul style="list-style-type: none">(i) implementation guidance for not-for-profit entities on contracts with customers (set out as an amendment to AASB 15); and

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- (ii) requirements and implementation guidance for income from taxable events and transactions outside contracts with customers;
- (b) the ED should propose that whenever the cash consideration paid for a non-financial asset by a not-for-profit entity differs from fair value, the asset's 'cost' should be measured at fair value. However, a qualitative assessment would be made of whether such a difference occurred; and
- (c) the Board reaffirmed its earlier tentative decision that a condition that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the 'sufficiently specific' criterion for identifying a performance obligation. For example, absent of any other factors, receipt of funds on 30 June 2015, although specified to be for the period 1 July 2015 to 30 June 2016, would be recognised as income at 30 June 2015. However:
 - (i) a performance obligation may arise when such a condition is accompanied by other conditions (such as a condition that particular goods or services are to be provided to the customer); and
 - (ii) a transfer of assets to a not-for-profit entity may, depending on the facts and circumstances, give rise to liabilities other than performance obligations (e.g. a refund liability).

The Board tentatively decided that where there is a donation element, this should be accounted for prior to the application of other Standards – accordingly, below-market leases would need to be initially accounted for at fair value. The Board will consider appropriate transitional requirements related to these issues.

The Board will consider further drafts of the ED out of session over the coming weeks. The Board also directed staff to undertake further research and analysis into refund liabilities and the definition of 'contributions by owners'. The ED is targeted for issue in March 2015.

6.1 Memorandum from Jim Paul and Glenn Brady dated 27 January 2015 re Income from transactions of Not-for-profit Entities

6.2 AASB Staff Issues Paper: Draft ED on Income from Transactions of Not-for-Profit Entities – issues for consideration in approving ED

6.3 Draft ED XX Income from Transactions of Not-for-Profit Entities

October 2014

The Board continued its redeliberations of earlier tentative decisions regarding the identification, measurement and recognition of donation components of a not-for-profit (NFP) entity's contracts with its customers. The Board tentatively decided to propose in its forthcoming ED on Income from Transactions of NFP Entities that:

- (a) identifying whether a contract with a customer includes a donation component that should be accounted for separately requires a qualitative assessment, using the available evidence, of whether:
 - (i) the customer intended to provide a donation to the entity; and
 - (ii) the donation is separately identifiable from the goods or services promised in the contract. The Board noted that assessing whether a donation is separately identifiable from the goods or services promised in the contract is similar to the requirement in IFRS 15 *Revenue from Contracts with Customers* to determine whether a good or service promised to a customer

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is distinct. A NFP-specific factor that would indicate a donation is not separately identifiable is that the donation is contingent on the NFP entity also transferring a good or service to the customer; and

- (b) assessing whether separately identifiable donation components of contracts with customers are material (and therefore need to be accounted for separately) should be made on an individual contract basis without reassessment at an aggregate or portfolio level, to help NFP entities avoid costs that would outweigh the related benefits to users of financial statements.

AASB staff do not anticipate discussing any further issues with the Board prior to publishing the ED. The ED is now targeted for publication in Q1 2015.

13.1 Memorandum from Jim Paul and Glenn Bardy dated 17 October 2014 re: Income from Transactions of Not-For-Profit Entities

13.2 Issues Paper: Identification and Recognition of Donations in the AASB ED on Income from Transactions of Not-for-Profit Entities

13.3 Illustrative NFP examples of accounting for donations

September 2014 In light of the issuance of IFRS 15 *Revenue from Contracts with Customers*, the Board reviewed the NFP modifications tentatively decided by the Board in relation to the IASB ED preceding that IFRS. Development of the draft AASB ED had paused while the Board awaited the finalisation of IFRS 15. The Board tentatively reaffirmed its decisions to include in the ED:

- (a) guidance that references to 'customer' used in IFRS 15 are to be read by NFP entities as references to another party to the transaction;
- (b) NFP-specific examples of when arrangements would, or would not, create enforceable rights and obligations;
- (c) NFP-specific guidance on essential characteristics of promises to transfer goods or services that are sufficiently specific to qualify as a performance obligation. The Board reaffirmed that these characteristics would be necessary, but might not be sufficient, to meet the principle that a promise is 'sufficiently specific' if the goods or services to be transferred are stipulated in sufficient detail to enable identification of how and when the performance obligation is satisfied; and
- (d) a NFP-specific modification of IFRS 15 that would not require the transaction price to be allocated only to goods or services that are the subject matter of performance obligations. This is to enable separate recognition of any donation component of a contract, subject to the thinking noted in the paragraph below.

The Board tentatively decided to amend its draft proposal to require any donation component of a contract to be accounted for separately (as income when related inflows of economic benefits occur), regardless of the nature of the evidence for the existence and amount of such a component. The Board tentatively decided to explore an approach under which accounting separately for a donation component of a contract is required if a particular evidence threshold is met (e.g. there are observable inputs for estimating the stand-alone selling prices of all of the promised goods or services in the contract).

The ED is targeted for issue during the fourth quarter of 2014.

19.1 Memorandum from Jim Paul and Glenn Brady dated 19 August 2014 re: Income from Transactions of NFP Entities

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	<p>19.2 Issues paper: Review of AASB’s Tentative Decisions regarding NFP modifications of IFRS 15 <i>Revenue from Contracts with Customers</i> that would be included in the AASB ED on Income from Transactions of NFP Entities</p> <p>19.3 Inventory of AASB’s tentative decisions regarding NFP modifications of the IASB ED preceding IFRS 15</p>
May 2014	<p>The Board received a staff presentation on AASB tentative decisions to date in developing an Exposure Draft (ED) on Income from Transactions of Not-For-Profit Entities (NFPs), and a draft project plan.</p> <p>The ED will be based on IFRS 15 <i>Revenue from Contracts with Customers</i>, modified where necessary to address NFP-specific issues, including accounting for income from transactions of NFPs arising from non-customer sources (e.g. taxes). It will include a proposed replacement of the income recognition requirements in AASB 1004 <i>Contributions</i>.</p> <p>No decisions on the draft ED were made by the Board at this meeting. The ED is targeted for issue during the second half of 2014.</p> <p>16.1 Memorandum from Jim Paul and Glenn Brady dated 13 May 2014 re Income from Transactions of Not-For-Profit Entities: Summary of project developments and staff project plan</p>
December 2012	<p>The Board had before it a memorandum from Jim Paul dated 27 November 2012 (Agenda Paper 14.1).</p> <p>The Board considered a status report on progress with drafting an ED on Income from Transactions of Not-for-Profit Entities. The draft ED is based on IASB ED/2011/6 <i>Revenue from Contracts with Customers</i>, and includes draft ‘Aus’ paragraphs to address issues specifically affecting not-for-profit (NFP) entities.</p> <p>The Board noted that the IFRS on Revenue from Contracts with Customers is targeted for issue by the IASB during the first half of 2013. The Board decided that, in view of the changes to IASB ED/2011/6 decided by the IASB in its redeliberations of that ED’s proposals and the expected imminent issue of the IFRS, it would base the AASB ED on the text of the issued IFRS (modifying it for NFP entity specific issues), and would issue its ED seeking comments on those modifications as soon as the IFRS is issued. The timing of issue of the ED would therefore depend on when the IFRS is issued.</p> <p>The Board directed staff to distribute draft Tier 2 disclosure requirements for the AASB ED to the Board’s Differential Reporting Subcommittee simultaneously with distributing a pre-ballot draft of the AASB ED.</p>
July 2012	<p>The Board had before it:</p> <ul style="list-style-type: none">(a) a memorandum from Jim Paul dated 10 July 2012 (Agenda Paper 6.1);(b) a staff issues paper on recognising liabilities for onerous performance obligations (Agenda Paper 6.2); and(c) a staff note on a teleconference between members of HoTARAC and AASB staff on 4 July 2012 which focused mainly on draft minutes of the AASB’s tentative decisions made in response to the letter on this project from HoTARAC dated 7 May 2012 (Agenda Paper 6.3). <p>The Board noted the IASB has tentatively decided to not proceed with its proposal in IASB ED/2011/6 <i>Revenue from Contracts with Customers</i> for recognising onerous performance</p>

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obligations, and to instead apply the requirements for onerous contracts in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to contracts with customers. The Board decided its ED on Income from Transactions of NFP Entities (which will be based on the IASB ED) should note this IASB decision, and indicate the AASB's intention to conform to the ultimate IASB decision. In making that decision, the Board noted that:

- (a) in its submission on IASB ED/2011/6, it recommended the approach tentatively decided by the IASB (as outlined above); and
- (b) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* contains no NFP-specific modifications of the onerous contract requirements in IAS 37.

The Board received a staff report, and considered the staff note, on the above-mentioned teleconference with HoTARAC members on 4 July 2012. The teleconference focused particularly on the Board's draft proposed principles for identifying performance obligations. In light of the issues raised by HoTARAC members, the Board decided to add clarifications of some of those principles. In particular, the Board decided that its draft ED on Income from Transactions of NFP Entities should:

- (a) emphasise that both the 'enforceable' and 'sufficiently specific' criteria must be satisfied for a performance obligation to exist. Further, it should clarify that, although enforceability of promises to provide goods or services is proposed to be assessed at a contract/arrangement level, whether such a promise is 'sufficiently specific' to be a performance obligation is proposed to be assessed separately for each promise (paragraph IG6 of the Working Draft ED considered at the Board's April 2012 meeting refers);
- (b) clarify the nature of 'advance receipts' (which are proposed to be treated as liabilities), and give examples of the treatment of transfers under binding arrangements that are received shortly before the end of the reporting period and either can, or cannot, be spent or used until a subsequent reporting period;
- (c) be reviewed throughout, and reworded where necessary, to provide a neutral indication of the likelihood that performance obligations would be identified in respect of particular types of arrangements;
- (d) be reviewed in relation to clarifying any interaction between paragraphs IG5 – IG7 and paragraph IG20 of the Working Draft ED considered at the Board's April 2012 meeting; and
- (e) include examples based on some Commonwealth/State national partnership agreements that would assist in applying the Board's proposed model for income recognition by NFP entities.

June 2012

The Board had before it:

- (a) a memorandum from Jim Paul dated 23 May 2012 (Agenda Paper 6.1);
- (b) a letter from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) dated 7 May 2012 regarding the Board's project on Income from Transactions of Not-for-Profit Entities (Agenda Paper 6.2); and
- (c) a staff paper on issues raised in the HoTARAC letter (Agenda Paper 6.3).

The Board expressed appreciation that HoTARAC provided this valuable input at such a timely point in its project on Income from Transactions of Not-for-Profit (NFP) Entities. In relation to the issues raised in the HoTARAC letter and, in relation to the forthcoming AASB

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ED on Income from Transactions of NFP Entities the Board:

- (a) reaffirmed its decision that performance obligations of NFP entities would fall within the scope of 'contracts' as defined in IASB ED/2011/6 *Revenue from Contracts with Customers*, because the 'commercial substance' test for a contract in the IASB ED does not require a commercial/profit objective. The IASB ED says a contract has commercial substance if the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract. The Board observed that the IASB's proposed 'commercial substance' test focuses on whether a contract is substantive (that is, gives rise to substantive rights and obligations), and decided to clarify this aspect in the context of NFP entities in its ED;
 - (b) noted that a 'directive' is just one example of an enforcement mechanism. It decided the draft guidance that 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 legally enforceable, should be broadened to avoid focusing on a specific mechanism giving rise to legal authority;
 - (c) decided the ED should provide examples of arrangements entered into by a NFP entity (involving transactions giving rise to income) that clearly are legally enforceable. During the ED's comment period, staff should conduct research into circumstances in which it is less clear whether an arrangement is legally enforceable;
 - (d) noted that, based on the information provided, grant arrangements between the Commonwealth and State Governments, including those described as 'National Partnership Payment arrangements', appear not to be 'joint arrangements' as defined in AASB 11 *Joint Arrangements*;
 - (e) reaffirmed its decision that a transferor's capacity or threat to withhold future funding to which the transferee is not presently entitled is a source of economic compulsion that does not, of itself, make a promise enforceable upon a transferee. This is distinct from circumstances in which the transferor presently holds refund rights, or has the capacity to impose a severe penalty, in the event of the transferee's non-performance, but might choose to effect such a refund or penalty by deducting that amount from a future transfer. For example, such a transferor's capacity or threat to withhold future funding to which the transferee is not presently entitled would be distinct from any circumstances in which:
 - (i) a transferor could demand a refund of granted assets in the event of the transferee's non-performance, regardless of whether it makes any future transfers to the transferee, but chooses for convenience to 'settle net' by deducting the refund amount from a future transfer; and
 - (ii) funding for two projects is negotiated jointly, with funding for the second dependent on satisfactory performance of the first (in which case there would be, in substance, one contract or other arrangement and enforceability should be assessed for the contract/arrangement as a whole).
- In these two cases, the transferor could enforce against the transferee (the reporting entity) a promise to provide specified goods or services;
- (f) noted that, in making its decision in (e), a NFP-specific consideration is that a threat to withhold future funding is sometimes the only mechanism with which a

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government can coerce another government (or other NFP entity) to perform as promised. However, the Board concluded this is not an adequate reason to create an exemption from the Board's general policy that economic compulsion does not create a liability. In this regard, the Board noted that creating such an exemption could imply some NFP public sector entities have liabilities to provide social benefits over a long future period because, arguably, those entities are economically/politically compelled to continue to provide those social benefits;

- (g) decided to clarify that the enforcement mechanism of a severe penalty is not limited to a refund of money provided;
- (h) decided to add guidance that an acquittal process might be indicative of both an enforceable promise and a 'sufficiently specific' promise, but is neither necessary nor sufficient, of itself, to ensure a performance obligation exists. In this regard, the Board noted that the nature, and level of detail, of processes for assessing whether promises to perform are met can vary widely;
- (i) decided to propose a principle that a 'sufficiently specific' stipulation must specify the goods or services to be transferred in sufficient detail to enable identification of how and when the performance obligation is satisfied. The Board decided to largely retain its draft examples of 'sufficiently specific' stipulations (while amending the reference to the "nature or type of goods/services" to accord with the principle), but to:
 - (i) clarify that those examples are indicative and not a substitute for meeting the principle; and
 - (ii) provide examples illustrating when promises are, respectively, clearly 'sufficiently specific' and clearly not 'sufficiently specific', while noting that judgement would need to be applied in many cases;
- (j) decided to clarify that, if a transfer of assets to a NFP entity increases equity and neither:
 - (i) gives rise to a performance obligation; nor
 - (ii) is a contribution by owners,it should immediately be recognised as income under the proposed Standard. Therefore, for example, even if an arrangement does not give rise to identifiable rights of the transferor, it would be accounted for under the Board's proposed Standard;
- (k) decided to clarify that its proposed NFP entity-specific modification of IASB ED/2011/6 to require any donation component of a transaction to be recognised immediately as income is not a departure from transaction neutrality, because the modification addresses a common phenomenon in the NFP sector that should seldom be significant to for-profit entities in their contracts with customers;
- (l) noted that staff of the Australian Bureau of Statistics (ABS) informally indicated an initial view that the working draft ED considered by the Board in April 2012 seems consistent with the ABS Manual and therefore that a Standard consistent with that ED would not be expected to give rise to GAAP/GFS harmonisation differences. The Board requested AASB staff to draft the ED's guidance on the nature of taxes from a GAAP perspective in a way that helps minimise the risk of any GAAP/GFS

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harmonisation differences;

- (m) reaffirmed its decision not to address grantor accounting for grants in the ED, and decided to explain its reason for this decision in the ED's Basis for Conclusions. The Board's reason is that dealing with grantor accounting would raise additional issues that would delay the finalisation of a Standard dealing with recognition of income from transactions of NFP entities. Such an outcome would be inconsistent with the Board's intention to withdraw AASB 118 *Revenue* and AASB 111 *Construction Contracts* contemporaneously with the IASB's withdrawal of IAS 18 *Revenue* and IAS 11 *Construction Contracts* upon issuing an IFRS on Revenue from Contracts with Customers;
- (n) noted that some issues raised by HoTARAC regarding the June 2011 draft Basis for Conclusions placed on the Board's website have been resolved by subsequent developments. These issues are:
 - (i) the previous proposal to apply enforceability at a performance obligation level rather than a contract level—now amended in keeping with IASB ED/2011/6;
 - (ii) a concern that income-generating transactions without performance obligations would fall outside the scope of the ED [see decision (j) above]; and
 - (iii) the previous proposal to extend the requirements for the recognition of volunteer services by NFP entities to any circumstances in which their fair value can be measured reliably—which was subsequently reversed at the Board's April 2012 meeting; and
- (o) decided the comment period for the ED should be substantial, but should not exceed four months, and should be scheduled having regard to the expected timing of the forthcoming IFRS on Revenue from Contracts with Customers.

The Board noted that staff will prepare an issues paper for consideration by the Board at its next meeting on whether any NFP entity-specific modification of IASB ED/2011/6 should be made in the ED in relation to the application of an 'onerous performance obligations' test.

April 2012

The Board had before it:

- (a) a memorandum from Jim Paul dated 3 April 2012 (Agenda Paper 5.1);
- (b) a staff issues paper on a Working Draft Exposure Draft entitled *Income from Transactions of Not-for-Profit Entities* (Agenda Paper 5.2); and
- (c) the Working Draft Exposure Draft (Agenda Paper 5.3).

The Board decided that:

- (a) as illustrated in the Working Draft ED, the ED should incorporate IASB ED/2011/6 *Revenue from Contracts with Customers* and not-for-profit (NFP) entity specific modifications, with the Australian Implementation Guidance for NFP entities in Appendix E being an integral part of the proposed Standard;
- (b) in relation to NFP entities, the ED should apply to income from transfers of assets to the entity from transactions and from events;
- (c) the ED should not apply to income recognised under the requirements of another Australian Accounting Standard: for example, income recognised from remeasurements of assets under AASB 140 *Investment Property* or AASB 141 *Agriculture*, and foreign currency gains recognised under AASB 121 *The Effects of*

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Changes in Foreign Exchange Rates. However, other Standards would be proposed to be amended where inconsistent with the principles in the ED, particularly in relation to initial measurement of assets received;

- (d) consistently with the proposed scope of the ED in paragraph (b) above, the ED should apply to income from taxable events;
- (e) consistently with IASB ED/2011/6, the ED should propose that non-cash inflows received are to be measured at fair value. This is consistent with existing 'Aus' paragraphs in various Australian Accounting Standards stating that, for NFP entities, the 'cost' of an asset acquired at no cost or for a nominal cost is the asset's fair value as at the date of acquisition. Adopting the proposed IFRS text would provide an opportunity to consolidate that principle into one Standard;
- (f) the draft consequential amendments to Australian Accounting Standards (in relation to NFP entities) in Appendix D of the Working Draft ED should be amended to reflect the decision in paragraph (e) above. For example, Appendix D of the ED should not (as drafted) propose measuring government grants related to biological assets of not-for-profit entities at their fair value less costs to sell;
- (g) the ED should propose that, when a NFP entity recognises a financial asset or financial liability arising from a transaction that includes a donation:
 - (i) the donation should be recognised for the difference between the transaction price and the fair value of the financial asset or financial liability plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability; and
 - (ii) the principle in (i) immediately above is to be applied regardless of whether the fair value of the financial instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets;
- (h) the ED should propose a NFP-specific amendment to paragraph B5.4.8 of AASB 9 *Financial Instruments* to facilitate the proposal in paragraph (g)(ii) above. The Board's basis for this proposal is that the general presumption in AASB 9 that the fair value of a financial instrument is initially represented by the transaction price is not valid for NFP entities, because various transactions of NFP entities giving rise to financial instruments include a donation component;
- (i) consistently with IASB ED/2011/6, the ED should propose that a NFP entity's promise to provide goods or services must be enforceable against the entity to qualify as a performance obligation. The promise must also be 'sufficiently specific' to qualify as a performance obligation. In this regard, staff are to develop suggestions for strengthening the draft guidance on what constitutes a 'sufficiently specific' promise;
- (j) the ED should propose that the total amount of a NFP entity's performance obligations arising from a transaction is to be measured at fair value, leading to immediate recognition of any donation component of the transaction as income. To allocate that fair value amount to the separate performance obligations, the NFP entity would apply without modification the relative stand-alone selling price basis

proposed in IASB ED/2011/6. Consequently, the treatment of performance obligations would be the same regardless of whether the transaction giving rise to them has a donation component. This approach should be illustrated by an example of multiple performance obligations arising from a transaction that customarily takes place at a discount (that joint price being the total fair value of the performance obligations), with:

- (i) donation income recognised immediately for the difference between the transaction price and the total fair value of the performance obligations; and
 - (ii) the total fair value of the performance obligations allocated to the separate performance obligations pro rata to the stand-alone selling price of each performance obligation;
- (k) the ED should also illustrate transactions in which NFP entities provide goods or services at a discount to their total fair value (i.e., the transaction includes a donation made by the NFP entity), and the transaction price is allocated to the separate performance obligations pro rata to the stand-alone selling price of each performance obligation (the Board has yet to consider whether there is a NFP-specific reason to exempt NFP entities from the ‘onerous performance obligations’ test proposed in IASB ED/2011/6); and
- (l) the ED should not propose any amendments to the requirements for the recognition and disclosure of volunteer services received in AASB 1004 *Contributions*. However, the ED should propose permitting a NFP entity to elect to recognise as assets and income volunteer services that meet the general recognition criteria for assets (rather than the more restrictive recognition criteria for volunteer services in AASB 1004). The Board’s view is that recognition of volunteer services, the fair value of which can be measured reliably, would provide useful information for users of financial statements of NFP entities, but extending the scope of the recognition requirements for those services would raise significant practical issues that warrant extensive due process. Undertaking that additional due process would significantly delay the issuance of a Standard on Income from Transactions of NFP Entities and the related replacement of the general income recognition requirements in AASB 1004. Therefore, the Board considers that the cost of proposing to extend the scope of the recognition requirements for volunteer services would outweigh the benefits. Instead, a review of the requirements for the recognition and disclosure of volunteer services received should be undertaken in a future project. These Board views are to be set out in the Basis for Conclusions on the ED.

The Board decided that the effective date of the Standard developed from the ED should be the same as the effective date of the IFRS on Revenue from Contracts with Customers, with early application permitted. The Board noted that, if the IFRS is issued after 31 December 2012, its effective date would be likely to be 1 January 2016.

The Board’s goal is to approve the ED for issue in June 2012, to facilitate the issuance of a Standard on Income from Transactions of NFP Entities either as part of the Australian Accounting Standard incorporating the IFRS on Revenue from Contracts with Customers or contemporaneously with that Standard.

September 2011 The Board had before it:

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| | <ul style="list-style-type: none">(a) a memorandum from Jim Paul dated 31 August 2011 (Agenda Paper 7.1);(b) a staff issues paper entitled <i>Recognition and Disclosure of Contributed Services</i> (Agenda Paper 7.2); and(c) a staff issues paper entitled <i>Exclusion of For-Profit Government Departments</i> (Agenda Paper 7.3). |
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The Board considered these issues papers in developing an ED on Income of NFPs (based on the draft IFRS on Revenue from Contracts with Customers – which is subject to re-exposure by the IASB in the near future).

Recognition and Disclosure of Contributed Services

The Board considered the issues paper on the recognition and disclosure of ‘contributed services’ (donated services) received by not-for-profit entities (NFPs). After considering the submissions received on this topic in response to ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*, the Board:

- (a) decided all NFPs (whether in the private or public sector) should:
 - (i) be required to make disclosures about the nature and significance of donated services received, whether recognised or unrecognised; and
 - (ii) in principle, be required to recognise donated services received at fair value, when fair value can be measured reliably;
- (b) acknowledged that applying the recognition principle in (a)(ii) above would give rise to cost/benefit issues, particularly for smaller NFPs, that need further consideration;
- (c) consequently decided to propose both requirements in (a) above in its ED on Income of NFPs, but to propose that the recognition requirement has a later application date than the operative date of the Standard. In the interim, the Board will consider:
 - (i) opportunities for the review of the current regulatory regime for financial reporting by smaller NFPs; and
 - (ii) issues relating to donated services received in the context of its project on Service Performance Reporting; and
- (d) observed that, until the later application date referred to in (c) above, the present recognition requirements for donated services received in AASB 1004 *Contributions* would remain unchanged.

The Board observed that the decisions would give rise to the following proposed changes to AASB 1004:

- (a) one of the specific recognition criteria in paragraph 44 of that Standard for donated services received by local governments, government departments, GGSs and whole of governments (namely, that the services would have been purchased if they had not been donated) would be omitted; and
- (b) the scope of the specific recognition criteria for donated services in that Standard would be extended to include all NFPs, including those in the private sector.

The Board decided that its Basis for Conclusions on the ED on Income for NFPs should note that:

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- (a) recognition of donated services received that meet the recognition criteria should not be optional, because:
 - (i) non-recognition of donated services received that meet the recognition criteria would omit income and related expenses (the consumption of the services) of the NFP, impairing the representational faithfulness of the income and expenses reported. Consequently, the financial statements would be less useful for assessing the cost of services provided by the NFP; and
 - (ii) providing an option would reduce the comparability of financial information between NFPs and between periods. An example of this lack of comparability is that a NFP that receives a cash donation for purchasing services might recognise different income and expenses than a NFP that receives donated services; and
- (b) the Board proposes omitting the recognition criterion in paragraph 44 of AASB 1004 that the services would have been purchased if they had not been donated, because application of that criterion:
 - (i) does not necessarily reflect whether the entity receives benefits from the services (for example, the services might be provided under the entity's direction and yet would not otherwise have been purchased);
 - (ii) is potentially affected by the entity's capacity to pay for the services, which is incongruous with many NFPs' dependence on donated services because they have insufficient resources to purchase them; and
 - (iii) is unnecessary to address difficulties (and related costs) in reliably measuring some donated services, because the other recognition criterion for donated services is reliable measurement.

For-Profit Government Departments

The Board considered the issues paper on redeliberating its proposal in ED 180 that the replacement Standard for AASB 1004 should exclude any for-profit government departments from its scope. After considering the submissions received on this topic, the Board effectively confirmed its proposal in ED 180. It decided that any for-profit government departments should be outside the scope of any NFP-specific text applying to Income of NFPs, consistent with the Board's policy that for-profit entities (whether in the private or public sector) conform to IFRSs. Those government departments would apply the text of the Australian Accounting Standard that incorporates without amendment the expected IFRS on Revenue from Contracts with Customers. The scoping out of any for-profit government departments would not be mentioned explicitly in the scope paragraphs of the ED on Income by NFPs (it would be implicit in the ED's scope limitation to NFPs), but would be noted briefly in the Basis for Conclusions on the ED.

Scope of the ED on Income of NFPs

The Board decided to exclude from its ED on Income of NFPs some issues dealt with in AASB 1004 that are outside the scope of the expected IFRS on Revenue from Contracts with Customers. For example, the ED would not include proposals in respect of:

- (a) recognition requirements for contributions by owners and distributions to owners;
- (b) requirements for the treatment of restructures of administrative arrangements in

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the public sector; and

- (c) the future role (if any) of AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Those issues will be considered by the Board as soon as is feasible, but not as part of the ED. The treatment of those issues would remain unchanged until they are considered by the Board in the future.

July 2011

The Board had before it:

- (a) a memorandum from Jim Paul dated 29 June 2011 (Agenda Paper 14.1); and
- (b) Staff Issues Paper: *Recognising Liabilities for Onerous Contracts* (Agenda Paper 14.2).

The Board considered the issues paper, which discussed whether its future Exposure Draft on Income of Not-For-Profit Entities (NFPs) should propose that NFPs should apply an 'onerous contract' test consistent with that set out in the draft IFRS *Revenue from Contracts with Customers*, which the IASB plans to re-expose shortly. In addition, the issues paper discussed whether the expected text of the 'onerous contract' test in the forthcoming IASB ED would warrant any modification to deal with NFP-specific issues. The session was educational and the Board made no decisions.

The Board noted that the scope of this topic relating to onerous contracts is confined to long-term arrangements giving rise to unconditional enforceable obligations to provide goods or services, where the performance obligations are not capped by the amount of consideration received by the entity and the entity cannot cancel the arrangement and return the consideration.

The Board discussed how to apply the 'onerous contract' test when a grantor subsidises the cost of a service that is partly paid for by service recipients – for example, where a public rail authority is subsidised to provide rail services in sales to commuters for a price less than the cost of the service. Comments by Board members on such arrangements included that:

- (a) the arrangement with the grantor should be accounted for separately from each arrangement with a service recipient. Even if the subsidy is paid in advance, economically it is the same as a reimbursement. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires reimbursements to be recognised as a separate asset (that is, accounted for separately from obligations to other parties). This supports the above-mentioned treatment;
- (b) until service recipients enter a binding arrangement with the reporting entity, the reporting entity does not have an obligation to provide the service to them, notwithstanding having received a subsidy;
- (c) therefore, the amount of the grant should be recognised as a performance obligation to be extinguished by the provision of services in subsequent arrangements, at which time an equivalent amount of revenue would be recognised;
- (d) the treatment in (c), which does not identify the grant as giving rise to an 'onerous' obligation, is supported by the fact that, if the subsequent arrangements were not entered into, the entity would be obliged to return no more than the amount of the grant—it would not be obliged to render services to the grantor at a potentially higher cost; and

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- (e) each arrangement with a service recipient would be loss-making (onerous), but each such loss would be accompanied by a 'gain' (revenue) from derecognising the related grant obligation (consistent with the grant compensating the entity for entering onerous arrangements with service recipients).

The Board discussed whether there are NFP-specific reasons for NFPs not to apply the 'onerous contract' test. Board members:

- (a) noted that the key challenge with NFPs applying the 'onerous contract' test is using different measurement approaches to measuring onerous contract liabilities and related impairments of assets. Specifically, they noted that onerous contract liabilities would mainly reflect net cash outflows in respect of incurring and settling performance obligations, whilst NFPs would often recognise any impairments of assets on the basis of depreciated replacement cost. Board members disagreed with the assertion in Example 2, Variation B (beneath paragraph 32) of Agenda Paper 14.2 that a liability for an onerous contract (if recognised) would be measured separately from any impairment loss on related assets. Those Board members noted that:
 - (i) the same cash flows affect whether assets dedicated to a contract are impaired and whether a liability for an onerous contract exists; and
 - (ii) impairment losses recognised on inventories and depreciable assets dedicated to a contract reduce the estimated amount of cost of goods sold/consumed and of depreciation that would be taken into account in determining whether a contract is onerous;
- (b) requested staff to prepare a paper exploring:
 - (i) how the relationship between impairments and liabilities for onerous contracts would be accounted for if net cash outflows do not necessarily give rise to an impairment loss for NFPs (due to the way value in use is defined for NFPs in paragraph Aus6.1 of AASB 136 *Impairment of Assets*); and
 - (ii) how a NFP would apply the 'onerous contract' test on a contract-by-contract basis when assets on which impairments are recognised service more than one contract, given that paragraph 69 of AASB 137 says "Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract (see AASB 136).";
- (c) noted that a reason not to exclude NFPs entirely from an 'onerous contract' test is that some contracts or other arrangements entered into by NFPs give rise to an unconditional obligation to supply goods or services at a loss;
- (d) noted also that excluding contracts or other arrangements for a 'social benefit or charitable purpose' from the scope of the 'onerous contract' test, as the FASB has tentatively decided to do, would potentially scope out a very broad range of contracts, including some mentioned in (c) immediately above; and
- (e) noted as well that it would be inappropriate to devise an 'onerous contract' test for NFPs that results in recognition of 'liabilities' to construct or improve an entity's own asset.

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The Board additionally noted that AASB staff are communicating with IASB staff regarding this topic. The Board will consider further issues papers after the IASB's proposals regarding the 'onerous contract' test become clearer and after further communication between AASB staff and IASB staff.

June 2011

The Board had before it:

- (a) a memorandum from Jim Paul dated 25 May 2011 (Agenda Paper 16.1); and
- (a) a draft Basis for Conclusions for an Exposure Draft (ED) on Income of Not-for-Profit Entities (NFPs) (Agenda Paper 16.2)

The Board considered the draft Basis for Conclusions on the ED it is developing on Income of NFPs, noting that this ED is being developed as a result of the Board's redeliberations of its proposals in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*, having regard to the submissions received on that ED. The draft revised ED is broadly based on the IASB's work in developing an IFRS on Revenue from Contracts with Customers, but modified where necessary to address NFP-specific issues. At this meeting, the Board decided:

- (a) to confirm its previous tentative decisions reflected in the draft Basis for Conclusions;
- (b) that the ED should apply to income of NFPs rather than only to their revenue; and
- (c) that performance obligations of NFPs should be measured at the fair value of the promised goods or services, using the fair value hierarchy in forthcoming AASB 13 *Fair Value Measurement*. Where stand-alone selling prices of promised goods or services (and hence of the performance obligation) cannot be observed or estimated reliably, the best indicator of the performance obligation's fair value may be the amount determined by applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

The Board discussed issues regarding whether the IASB's proposed criteria and methodology for recognising liabilities for onerous contracts should be applicable to NFPs. The Board did not make a decision on this topic, but identified issues to be addressed in a staff paper for consideration at a future meeting. Those issues include:

- (a) the potential that an 'onerous contract' test would apply at a whole-of-entity level, and the practical implications of applying the test at that level;
- (b) whether to replicate the FASB's tentative decision not to apply an 'onerous contract' test to contracts of NFPs entered to provide social benefits or for a charitable purpose; and
- (c) the implications of first applying an impairment test, in conformity with the proposed IFRS on Revenue from Contracts with Customers, when, under AASB 136 *Impairment of Assets*, NFPs measure an asset's value in use at depreciated replacement cost when the asset's future economic benefits are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits. The significance of this issue is that NFPs would measure a liability for an onerous contract by reference to net cash outflows after recognising impairments that may be measured on a basis other than net cash flows.

A Board member commented that sometimes an obligation arises from an event within an

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agreement with another party, and requested staff to address that issue in the revised draft Basis for Conclusions.

The Board decided to continue to monitor the IASB's deliberations on its project to develop an IFRS on Revenue from Contracts with Customers. It directed staff to draft an ED that is updated for IASB decisions as they are made, and to add examples of key transaction types (such as advance payments and multi-year grant arrangements) to illustrate the decisions set out in the draft Basis for Conclusions.

The Board decided to progress the project without delay, despite the restructure of New Zealand standard setting arrangements, and will inform the New Zealand External Reporting Board (XRB) in due course of progress toward developing a revised ED. The Board directed staff to keep XRB staff informed of developments on a timely basis.

A Board member commented that the treatment of grants and other transfers by transferors is an important issue in the public sector, in relation to which treatment by transferors and transferees is sometimes asymmetric. The Board confirmed that this issue is outside the scope of its current project on income of NFPs, and will consider at a future date whether to initiate a project on this issue. The Board noted that the outcome of its project on income of NFPs will provide valuable input into any future project on transferor accounting for transfers.

February 2011

The Board had before it:

- (a) a memorandum from Jim Paul and Joanne Scott dated 26 January 2011 (Agenda Paper 10.1);
- (b) a staff paper on the scope of revised ED (Agenda Paper 10.2);
- (c) a staff paper on the measurement of non-financial assets acquired (Agenda Paper 10.3);
- (d) a staff paper on the measurement of financial assets and financial liabilities arising from non-exchange transactions (Agenda Paper 10.4);
- (e) a staff paper on the measurement of performance obligations and other non-financial liabilities (Agenda Paper 10.5);
- (f) a staff paper on the measurement of transactions with exchange and non-exchange components (Agenda Paper 10.6);
- (g) a staff paper on the measurement of return obligations and advance receipts liabilities (Agenda Paper 10.7);
- (h) a staff paper illustrating the measurement of different categories of obligations (Agenda Paper 10.8);
- (i) a status report on the Boards' project on income from non-exchange transactions (Agenda Paper 10.9);
- (j) a status report on the IASB project to develop an IFRS on Revenue from Contracts with Customers (Agenda Paper 10.10); and
- (k) a flowchart of the elements arising from revenue transactions and how they might be measured by public benefit entities (PBEs)/NFPs (Agenda Paper 10.11).

The Board considered the agenda papers and the comments in the submissions on AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*

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(ED 180) relating to the issues discussed in the agenda papers.

The Board decided that:

- (a) assets and liabilities arising from transactions involving revenue of PBEs/NFPs in the public and private sectors should be identified and measured by considering which financial statement elements exist, without being concerned with whether the transaction concerned was 'exchange', 'non-exchange' or a combination of both. Accordingly, the revised ED (succeeding ED 180) should apply to revenue recognition by PBEs/NFPs in the public and private sectors and its scope should not be limited to non-exchange transactions. The Board has yet to decide whether the revised ED should be presented as a modified version of the IFRS on Revenue from Contracts with Customers (with additional PBE/NFP-specific guidance), or as a stand-alone document with a different title;
- (b) financial assets, financial liabilities [although see paragraphs (e) – (g) below] and non-financial assets of PBEs/NFPs arising from transactions within the scope of the revised ED should initially be measured in accordance with the measurement requirements of the Standard applying to that class of assets or liabilities (e.g., AASB 9 *Financial Instruments* and AASB 116 *Property, Plant and Equipment*). This decision reflects the Board's conclusion that there is not a PBE/NFP-specific reason to depart from these requirements. The Board noted that:
 - (i) IASB ED/2010/6 *Revenue from Contracts with Customers* proposes that, to determine the transaction price in a contract with a customer, non-cash consideration (or a promise of non-cash consideration) is measured at fair value; and
 - (ii) if the IASB proposal in (i) were retained in the resulting IFRS, initial measurement of non-financial assets received in contracts with customers might not require 'Aus' paragraphs dealing with the measurement of 'cost' (at fair value) when an asset is acquired for no cost or for a nominal cost.

However, the Board noted that, if the IFRS applying to a particular class of non-financial assets requires such assets to initially be measured at fair value adjusted for transaction costs, the Board's decision in the first sentence of (b) would require transaction costs to be taken into account in the initial measurement of the assets concerned;

- (c) non-financial liabilities (such as performance obligations) of PBEs/NFPs arising from transactions within the scope of the revised ED should be measured consistently with the principles underpinning IASB ED/2010/6, but those principles should be re-expressed in a manner leading to recognition of income from transactions or components of transactions that do not give rise to liabilities. [Re-expression of those principles is necessary because the specific requirements proposed in IASB ED/2010/6 do not acknowledge transactions involving a donation (or other contributory) element. The Board noted that, in some transactions of PBEs/NFPs, the contributory element may be the main component of the transaction.] Accordingly, the Board noted that, if the proposals in IASB ED/2010/6 were retained in the resulting IFRS:
 - (i) non-financial liabilities of PBEs/NFPs would be measured directly at the stand-alone selling price of the unit of account for the usual sale of the goods or services that are the subject of the obligations, rather than at fulfilment value. This is the case provided sufficient evidence of its stand-

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- alone selling price exists. The revised ED should not identify for PBEs/NFPs a single best method of those identified in the IASB Revenue ED for estimating the stand-alone selling price of a good or service that is the subject of a performance obligation. This is because the best method will depend on the evidence available in the circumstances, and professional judgement will be necessary in applying the principles in the Standard;
- (ii) any multiple obligations composing that unit of account would be measured indirectly on a relative stand-alone selling price basis (e.g., allocating any discount to each obligation within that unit); and
 - (iii) the difference between the total transaction price and the sum of the stand-alone selling prices of each unit of account, determined in accordance with (i) and (ii) immediately above, would be recognised as income or expense immediately. Thus, the relative stand-alone selling price allocation proposed in IASB ED/2010/6 would be limited to each unit of account for the obligations, and would not nullify the recognition of income for any contributory element of the transaction;
- (d) the re-expression of the proposals in IASB ED/2010/6 noted in (c)(i) – (iii) immediately above would apply to each PBE/NFP, and thus the scope of the re-expressed proposals would be based on the nature of the entity rather than the nature of the transaction (such as whether the transaction or a component thereof is ‘non-exchange’);
- (e) the limited exception to paragraph B5.4.8 of AASB 9 proposed in paragraph BC17 of ED 180 should be retained. ED 180 proposed removing the restriction in AASB 139 *Financial Instruments: Recognition and Measurement* (now in AASB 9) that ‘day one’ gains/losses on initial recognition of financial assets and financial liabilities arising from differences between the transaction amount and fair value may only be recognised when all of the variables that are inputs to the fair value estimate are observable. The Board decided the proposed exception should be retained because:
- (i) ‘day one’ gains reflecting a contributory element of a transaction are a common occurrence for PBEs/NFPs; and
 - (ii) applying the AASB 9 ‘observable variables’ constraint on recognising ‘day one’ gains/losses would give rise to a significant risk that financial statements would not recognise that contributory element, and the Board considers that recognition of such a contributory element is necessary for faithful representation of the transaction;
- (f) return obligations that are not advance receipts should be measured consistently with the proposed measurement basis for ‘refund liabilities’ in IASB ED/2010/6, namely, the probability-weighted amount of consideration that the entity expects to refund. The Board considers this measure would provide useful information about future sacrifices of economic benefits arising from return obligations. The Board also decided there is not a PBE/NFP-specific reason to depart from the measurement basis proposed in IASB ED/2010/6. Nevertheless, some Board members expressed concern that paragraph 37 of IASB ED/2010/6:
- (i) does not state that the “probability-weighted amount of consideration that the entity expects to refund to the customer” should take into account the

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time value of money; and

- (ii) refers to the entity's expectations of amounts that will be refunded, rather than the expectations of market participants about those amounts, thus departing unnecessarily from the fair value principle generally established in IFRSs for initial measurement of financial liabilities; and

- (g) liabilities in the form of advance receipts of taxes and transfers should, consistent with AASB 9, be measured at the amount that would be required to be returned if the taxable event did not occur or the transfer arrangement did not become binding. This would generally be the amount of the assets received in advance. In relation to transfers, an advance receipt may require the entity to sacrifice the economic benefits received in advance, either by refunding assets or by performing once the arrangement becomes binding. The Board decided advance receipts generally should not be characterised as demand deposits because, depending on the circumstances, the amounts received in advance might not be callable upon demand; for example, repayment might be required only if an uncertain future event beyond the control of the resource provider fails to occur (the taxable event does not occur or the transfer arrangement does not become binding).

The Board noted the status report for this project, including the ambitious draft timetable therein. The Board reaffirmed the project's high priority but decided not to identify estimated dates for issuing a revised ED and subsequent Standard. In this regard, the Board noted the dependence of those dates on when the IFRS on Revenue from Contracts with Customers is issued.

The Board also noted the status report on the IASB project to develop an IFRS on Revenue from Contracts with Customers.

The Board requested staff to prepare a paper discussing transfers accompanied by enforceable obligations to provide services that will cost more to fulfil than the amount of the transfer (e.g., the transfer partially funds the entity to perform a service it already intended to perform). The Board noted concerns that, under the measurement approach set out in paragraphs (c)(i) – (iii), an entity might customarily recognise losses upon recognising such transfers.

The Board also requested staff to provide feedback on whether, under the proposals in IASB ED/2010/6, partially-performed performance obligations would be remeasured (for example, by recalculating the proportions of the transaction price that are allocated, respectively, to the performed and unperformed components of the performance obligation). Board members expressed concern about the potential complexity of subsequent measurement of performance obligations if partially-performed performance obligations were required to be remeasured.

Furthermore, the Board requested staff to prepare for consideration at its March 2011 meeting a paper articulating its tentative decisions to date on the identification and measurement of elements addressed in this project, and the reasons for those decisions.

The Board also noted the project status report identifies a range of issues in ED 180 to be redeliberated, on which agenda papers will be prepared in due course.

December 2010 The Board had before it:

- (a) a memorandum from Jim Paul dated 24 November 2010 (Agenda Paper 8.1);

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- (b) a staff paper entitled *'Advance Receipts' Liabilities – Redeliberation of Proposals in AASB ED 180/FRSB ED 118* (Agenda Paper 8.2); and
- (c) a staff paper entitled *Income from Non-Exchange Transactions – Categories of Obligations* (Agenda Paper 8.3).

The Board continued its re-deliberations of proposals in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* for identifying liabilities of not-for-profit entities (NFPs) arising as recipients of assets in non-exchange transactions.

The Board considered the ED's proposed treatment of 'advance receipts' (resources received prior to a taxable event occurring or a transfer arrangement becoming binding), having regard to the submissions received on that ED. The Board:

- (a) confirmed its decision that 'advance receipts' give rise to liabilities, but only if a future sacrifice of economic benefits is required if the specified future event (the taxable event occurring or the arrangement becoming binding) does not occur. In this regard, the Board decided:
 - (i) the nature of such a liability is an unconditional obligation to stand ready to return transferred assets if the expected taxable event does not occur or the transfer arrangement does not become binding; and
 - (ii) that treating advance receipts as liabilities is consistent with the Board's tentative decision that designating a transfer as relating to a particular time period does not of itself give rise to a liability;
- (b) decided that the working definition of 'advance receipts' should be the definition of that term in AASB ED 180/FRSB ED 118; and
- (c) decided to consider at a future meeting whether the meaning of 'binding' in 'binding arrangement' should be clarified.

The Board deferred deciding whether to distinguish advance receipts from other return obligations until it redeliberates the measurement and disclosure proposals in AASB ED 180/FRSB ED 118. That decision will influence the Board's future decision on whether the meaning of 'binding' in 'binding arrangement' should be clarified.

The Board noted that, until assumed amounts are included in the examples in Agenda Paper 8.3, it is difficult to make decisions about the staff's analysis in that paper. The Board also noted that those examples raise issues regarding distinctions between obligations that depend on the Board's future decision on whether advance receipts should be distinguished from other return obligations. Agenda Paper 8.3 was prepared for illustrative purposes only, and will be extended to include illustrations of measurement issues for consideration at a future meeting.

October 2010

The Boards had before them:

- (a) a memorandum from Jim Paul and Joanne Scott dated 14 October 2010 (Agenda Paper B4.1);
- (b) an extract from minutes of the AASB/FRSB meeting on 17 – 18 March 2010 (Agenda Paper B4.2);
- (c) a staff strategy paper *Income from Non-Exchange Transactions: Scope of the Standard, and Adopting a Performance Obligations Approach to Identifying Liabilities* (Agenda Paper B4.3);

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- (d) a staff analysis *Income from Non-exchange Transactions: Adopting a Performance Obligations Approach to Identifying Liabilities* (Agenda Paper B4.4); and
- (e) a copy of PowerPoint slides on the other agenda papers (tabled paper).

The Boards considered aspects and implications of applying the IASB's proposed guidance on 'performance obligations' to the identification of liabilities arising from the receipt, by public benefit entities (PBEs)/not-for-profit entities (NFPs), of assets in non-exchange transactions. Proposed IASB guidance on the meaning of a 'performance obligation' (an obligation to provide goods or services) is included in IASB ED/2010/6 *Revenue from Contracts with Customers*.

The Boards considered three possible approaches:

- (a) applying the IASB-FASB guidance on performance obligations to non-exchange transactions of PBEs/NFPs, but modifying that guidance to the extent necessary to address specific PBE/NFP issues;
- (b) accounting for any obligation arising from a non-exchange transaction under the Standard on Revenue from Contracts with Customers, without any PBE/NFP modifications; and
- (c) reverting to the approach in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*.

The Boards supported option (a), that is, to continue working on a model for identifying such liabilities of PBEs/NFPs based on the IASB's guidance on performance obligations, while modifying that IASB guidance to express the IASB's proposed principles in a sector-neutral manner that therefore can be applied by PBEs/NFPs (see modifications further below).

The Boards agreed that work on developing guidance on performance obligations should be based on the tentative principle that a promise to provide goods or services is a performance obligation if it has the following features, which are inter-dependent:

- (a) it involves a sufficiently specific stipulation regarding the entity's promised performance (this enables reasonably objective identification of when a performance obligation has been satisfied); and
- (b) it is enforceable.

In relation to the characteristics of a sufficiently specific stipulation, the Boards expressed support for 'View 1' in the agenda papers under which 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.

Whilst they expressed a preference for 'View 1', the Boards noted a number of issues would

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arise in applying that view, and will monitor this issue as work on developing a 'performance obligations approach' proceeds. For example, the Boards observed that transferor stipulations regarding the nature or type of goods or services to be provided can vary in detail. Mitigating this, they observed that, for a stipulation to be enforceable (see below), it would need to be reasonably specific regarding the nature or type of goods or services to be provided.

The Boards agreed that, for a promise to provide goods or services to be regarded as 'enforceable', the transferor must be capable of enforcing that promise by legal or equivalent means. In this regard, the Boards tentatively agreed 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 is 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.

The Boards agreed that work on developing a 'performance obligations approach' should proceed on the basis that, if the IASB issues guidance on performance obligations consistent with that in its ED on Revenue from Contracts with Customers, the following modifications to that guidance would be appropriate:

- (a) the basis for identifying separate performance obligations (the 'unit of account') should be modified. In this regard, 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; and

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- (b) clarification should be included, in a PBE/NFP context, of:
 - (i) the meaning of 'customer' and the relevance of the notion of 'customer' in the IFRS on Revenue from Contracts with Customers. The Boards agreed it is unnecessary to specify which entity should be regarded as the 'customer', because the focus should be on the nature and extent of the PBE's/NFP's performance obligations;
 - (ii) how specific another party's enforceable right to receive goods or services must be in order to qualify as a performance obligation of the reporting entity; and
 - (iii) the meaning of 'enforceability' in relation to an enforceable promise to provide goods or services to other parties.

The Boards agreed to use the text of the forthcoming IFRS on Revenue from Contracts with Customers (which the IASB expects to issue in the second quarter of 2011) as the base for modified guidance for PBEs/NFPs. They agreed to review that decision after draft guidance is developed.

The Boards also agreed to continue the development of PBE/NFP guidance on income from non-exchange transactions by monitoring the IASB's deliberations on its Revenue project and by completing their redeliberation of other issues in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* having regard to the submissions received on that ED. They agreed to liaise with the IPSASB in relation to any consideration it gives to the implications for IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* of the IFRS on Revenue from Contracts with Customers.

The Boards agreed to consider the extent of additional guidance needed for PBEs/NFPs in forthcoming domestic Standards that incorporate the IFRS on Revenue from Contracts with Customers, in respect of exchange transactions entered by PBEs/NFPs. For example, they noted that the need for PBE/NFP guidance on the meaning of 'customer' applies to exchange transactions as well as non-exchange transactions. The Boards also noted that the scope of the IFRS on Revenue from Contracts with Customers may encompass some transactions currently regarded as non-exchange transactions.

July 2010

The Boards had before them a tabled copy of PowerPoint slides entitled '*Income from Non-Exchange Transactions (ED 180/ED 118)*' (Agenda Paper 8.1).

The Boards received a progress report about work on their joint project on income from non-exchange transactions. The Boards noted that, in March 2010, they commenced their review of the submissions on AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* and decided to explore an approach to liability recognition in which an enforceable performance obligation is of itself sufficient for a liability to exist.

The Boards were informed that an issues paper that considers the IASB's emerging thinking on performance obligations in its projects on 'revenue from contracts with customers' and 'conceptual framework' will be provided to the Boards' project Subcommittee shortly. The Boards expect to consider the paper at their joint meeting in October 2010.

The Subcommittee has been inactive since AASB ED 180/FRSB ED 118 was developed. Existing members of the Subcommittee (Glenn Appleyard, John O'Grady and Ken Warren) confirmed their willingness to continue to serve on the Subcommittee. The Boards

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appointed Dave Foster, Ian McPhee and Angela Ryan as new members of the Subcommittee, to replace former members Todd Beardsworth, Brett Kaufmann and Greg Schollum.

In relation to the draft issues paper, Board members were informed of the IASB's tentative view that, for a promise to perform to qualify as a liability, it must be enforceable by legal or equivalent means. Members expressed differing views on whether it would be appropriate to apply this principle when identifying liabilities arising from non-exchange transactions. Some argued that all specific promises to provide goods or services should be treated as liabilities until the goods or services are provided. As this was a progress report, no Board decisions were made.

March 2010

The Boards had before them:

- (a) a memorandum from Jim Paul and Joanne Scott dated 10 March 2010 (Agenda Paper B4);
- (b) a copy of submissions on Exposure Draft AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* (Agenda Paper B4.1);
- (c) a collation of the submissions received on AASB ED 180/FRSB ED 118 (Agenda Paper B4.2);
- (d) a strategy paper *Options for Moving Forward* (Agenda Paper B4.3);
- (e) extracts from minutes of previous meetings of the AASB and FRSB (Agenda Paper B4.4); and
- (f) a copy of AASB ED 180/FRSB ED 118 (Agenda Paper B4.5).

The Boards commenced their review of the submissions on AASB ED 180/FRSB ED 118, focusing particularly on comments received on the timing of income recognition by recipients. The Boards tentatively decided to explore departing from the ED's proposal that a liability (other than an advance receipt) arises from a non-exchange transaction when and only when the transfer gives rise to both a performance obligation and a return obligation (a 'condition on transferred assets'). The Boards decide to explore an approach in which:

- (a) an enforceable performance obligation is of itself sufficient for a liability to exist, and any related return obligation should be treated as an indicator of the enforceability of the performance obligation;
- (b) the principles for identifying an enforceable performance obligation are based on those being developed by the IASB and FASB in their joint project on Revenue Recognition;
- (c) guidance in IPSAS 23 that is consistent with the principles mentioned in (b) is also used;
- (d) when a transferor in a non-exchange transaction imposes an enforceable performance obligation on the transferee, the transferor is regarded as the 'customer'. Staff should explore how the principles referred to in (b) might be applied when, arguably, more than one 'customer' exists (e.g., as may occur in the university sector in Australia); and
- (e) 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.

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The Boards agreed to consider an outline of their plan for exploring an approach in which an enforceable performance obligation is of itself sufficient for a liability to exist before detailed work is undertaken. Once the Boards have considered the implications of this approach (including case study examples of the working draft revised definition of a liability arising from non-exchange transactions), and agree on the direction to be followed, they will activate a joint subcommittee to provide direction to, and feedback on, the staff's work on this new approach. At that time, the Boards will also consider a draft timetable for completing the development of a joint Standard.

At future meetings, the Boards will continue considering the submissions received on their ED, based on a staff analysis of the issues. Once the Boards have completed their redeliberations of the proposals in AASB ED 180/FRSB ED 118 and made further progress on exploring the new approach, the Boards will decide whether re-exposure of their decisions is warranted.

May 2009

The Board had before it:

- (a) a memorandum from Clark Anstis dated 15 May 2009 (Agenda Paper 4.1);
- (b) a draft Exposure Draft *Income from Non-exchange Transactions (Taxes and Transfers)*, marked up from the April 2009 version (Agenda Paper 4.2); and
- (c) an extract from the draft NZ ED illustrating descriptions of the sources of paragraphs, alternative wording for IG Example 15A and for Basis for Conclusions paragraphs on financial assets and financial liabilities, and an extract from IAS 39 BC (paragraph BC104) (Agenda Paper 4.3 – tabled).

The Board decided that:

- (a) the ED should be issued as a single, joint ED with the NZ FRSB, requiring references to both Australian and New Zealand Standards, the inclusion of some additional NZ material, and changes in presentation to distinguish Australian and NZ specific material; and
- (b) the source of each paragraph in the ED should be identified in a brief note following the paragraph, with the Table of Concordance retained to provide an overview of the relative contents of the ED and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

The Board's comments on specific items in the ED are shown in [Attachment 1](#).

The Board approved the issue of the draft ED, revised for the above decisions and further editorial amendments, as ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*, subject to approval of the final version by both the Acting Chairman of the AASB and by the Chairman of the FRSB. The Board agreed with the FRSB to a five-month comment period from the date of issuing the ED.

The Board noted that the Board's work program includes a low-priority project to review AASB Interpretation 1038 and indicated that this should be carried out after submissions have been received on ED 180 and the outcome of the ED process has been determined.

April 2009

The Board had before it:

- (a) a memorandum from Clark Anstis dated 16 April 2009 (Agenda Paper 5.1);
- (b) a draft ED *Income from Non-exchange Transaction (Taxes and Transfers)* marked up from the March 2009 version (Agenda Paper 5.2);

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- (c) an Issues Paper – *Financial Instruments* (Agenda Paper 5.3);
- (d) AASB and FRSB joint letter to IPSASB, dated 3 April 2009) regarding several examples in IPSAS 23 (Agenda Paper 5.4); and
- (e) AASB letter to the IFAC dated 3 April 2009, requesting copyright permission concerning the publication of an adaptation of IPSAS 23 (Agenda Paper 5.5).

The Board decided that:

- (a) the scope of the ED should not exclude leases and insurance contracts;
- (b) the ED should propose that the resulting Standard should take precedence over AASB 139 *Financial Instruments: Recognition and Measurement* in relation to the recognition of financial assets and financial liabilities arising under non-exchange transactions, and thus paragraph 25 concerning deferred recognition of a liability for a conditional return obligation should remain in the ED. However, the AASB decided that the measurement of financial assets and financial liabilities should be as specified in AASB 139 (except in respect of ‘day 1’ gains and losses), requiring measurement exceptions to be included in paragraphs 43 and 84 (for financial assets) and 58 and 59 (for financial liabilities). The Board decided that an example should be added to the draft Implementation Guidance, and to request comments on the issue in the Preface to the ED;
- (c) paragraph 81 concerning transfers that satisfy the definition of ‘contribution by owners’ not giving rise to income should be revised so that the wording is consistent with that definition;
- (d) paragraph 99 should state that the policy for recognising services in-kind as income and as an asset may be applied on a class-by-class basis;
- (e) in relation to the joint AASB/FRSB Basis for Conclusions on the ED:
 - (i) it should refer to the ED rather than the ‘[proposed] Standard’, with paragraph BC5 concerning the prospective issue of final Standards deleted;
 - (ii) it should explain the Boards’ decision to base the ED on IPSAS 23 rather than the IASB existing for-profit Standard for accounting for government grants (AASB 120), with reference to transaction neutrality issues; and
 - (iii) the NZ-specific paragraphs should be retained in the AASB’s ED, with the jurisdiction-specific paragraphs placed at the end of the Basis for Conclusions;
- (f) consequential amendments should be proposed to Aus paragraphs for not-for-profit entities in AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* to refer to acquisition through a non-exchange transaction rather than for no or nominal cost, with cost being measured at fair value. In respect of AASB 102, this would mean that such inventories would be measured at fair value on initial recognition instead of current replacement cost, to be consistent with the general asset measurement basis proposed in the ED. Furthermore, definitions of ‘exchange transaction’ and ‘non-exchange transaction’ are not required to be added to these Standards;
- (g) it is not necessary to amend AASB 118 *Revenue* to refer to income from non-exchange transactions being accounted for in accordance with the [resulting]

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Standard, since no cross-reference to AASB 1004 *Contributions* has been needed in the past;

- (h) the ED should propose that the resulting Standard would be issued as a replacement of AASB 1004; and
- (i) Members working in the public sector noted their view that Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* should be retained.

The Board requested a revised draft ED for consideration at the next meeting, incorporating the above decisions and additional editorial changes. The Board noted that the FRSB is expected to consider these matters at its forthcoming April meeting.

March 2009

The Board had before it:

- (a) a memorandum from Clark Anstis dated 27 February 2009 (Agenda Paper 5.1);
- (b) a draft Exposure Draft *Income from Non-Exchange Transaction (Taxes and Transfers)*, marked up from the December 2008 version (Agenda Paper 5.2); and
- (c) an Issues Paper – AASB 1004 *Implications* (Agenda Paper 5.3).

The Board discussed the issues raised in the agenda papers and the draft Exposure Draft (ED), which is based on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, and made the following decisions:

- (a) the term 'income' should be used instead of 'revenue' throughout the ED, including the implementation guidance, because non-exchange transactions may occur outside the course of the ordinary activities of an entity;
- (b) the definition of 'contributions from owners' in the ED should be the same as the definition used by the International Public Sector Accounting Standards Board (IPSASB), which has minor wording differences from the definition of 'contributions by owners' in AASB 1004 *Contributions*;
- (c) the scope of the ED should not be expanded from not-for-profit entities to include for-profit government departments, but the ED should ask whether the requirements in AASB 1004 for for-profit departments are still required;
- (d) parliamentary appropriations should be identified in the ED as non-exchange transactions, but instead of including the draft example in the implementation guidance the ED should ask whether further guidance is needed;
- (e) the transitional provisions in the ED should propose prospective application from the start of the earliest comparative period presented in the first financial statements to which the resulting Standard applies, with retrospective application permitted;
- (f) the implementation guidance should continue to include the IPSASB examples for a value added tax and death duties, since the guidance is illustrative generally rather than specifically for Australian circumstances;
- (g) the ED should include the Basis for Conclusions of the IPSASB from IPSAS 23 and also a Basis for Conclusions for the Board's own significant decisions; and
- (h) in relation to AASB 1004:
 - (i) the ED should propose that the resulting Standard should supersede

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AASB 1004 except for the requirements concerning the restructure of administrative arrangements (paragraphs 54-59), which apply only to government departments (both not-for-profit and for-profit) and other government-controlled not-for-profit entities; and

- (ii) the ED should ask whether the recognition requirements for contributions by and distributions to owners (paragraphs 48-53), which apply only to local governments, government departments and whole of governments, are still required.

The Board requested staff to consider whether the ED should propose the retention or withdrawal of Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*, or the transfer of only selected Interpretation 1038 content to a remaining AASB 1004, given that the indicators of contributions by owners set out in paragraph 8 of Interpretation 1038 are included in the ED.

The Board requested a revised draft ED for consideration at the next meeting, incorporating the above decisions and additional editorial changes.

February 2009

The Board had before it:

- (a) a memorandum from Clark Anstis dated 28 January 2008 (Agenda Paper 6.1); and
- (b) an Issues Paper on *Property Taxes* (Agenda Paper 6.2).

The Board discussed the issues paper on whether property taxes, in particular local government rates, include both exchange and non-exchange components and on identifying the taxable event. Board members expressed a range of views on whether local government rates could be regarded as comprising both exchange and non-exchange components:

- (a) some members considered that the involuntary nature of rates (e.g. the inability of ratepayers to opt out of or to enforce the provision of services) indicates that rates are a non-exchange transaction; and
- (b) other members considered that rate payments could be regarded as including payments for identifiable services provided directly to individual ratepayers, which have the character of exchange transactions to that extent. Members noted the practical difficulty of identifying the scope of exchange transactions under this view.

The Board discussed the measurement of identifiable services provided directly to individual ratepayers, noting that the absence of an agreed price between the local government and the ratepayers for the services makes the assessment of 'approximately equal value' (a feature of exchange transactions) more difficult.

The Board discussed various views of the taxable event for local government rates, as paragraph 66(f) of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* identifies the taxable event for property taxes as either the passing of the date on which the tax is levied or the period for which the tax is levied. Members considered the effects of changes in ownership of rated property during the period and of property becoming or ceasing to be rateable during the period, and took the view that identifying the taxable event and the appropriate accounting for rates may depend on the particular circumstances in each jurisdiction.

The Board decided not to add guidance on these issues to the draft ED, which is based on IPSAS 23, but decided that the ED should include specific matters for comment on the

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issues.

December 2008 The Board had before it:

- (a) a memorandum from Clark Anstis dated 7 December 2008 (Agenda Paper 5.1); and
- (b) a draft Exposure Draft based on IPSAS 23, showing potential amendments considered by the FRSB and AASB (Agenda Paper 5.2).

The Board discussed a number of issues concerning the draft Exposure Draft (ED), as follows:

- (a) transitional provisions – various views were expressed concerning the requirements that would be appropriate, ranging from full retrospectivity to prospective application, except for recognised liabilities that would not meet recognition criteria. The Board agreed to reconsider the transitional provisions based on a comparison of the contents of the ED and the existing requirements in AASB 1004 *Contributions*;
- (b) the draft examples concerning property taxes, such as land taxes and local government rates – these raised many issues for the Board, including identifying the taxable event and whether local government rates are levied on a date or for a period, the effect of rate refunds from the local government if a rated property is sold by the owner, whether some or all local government rates in substance comprise both an exchange component (e.g. rubbish collection services) and a non-exchange component, and the effect of different organisational arrangements through which local government services might be provided to ratepayers. For example, some members took the view that any amounts stated on rate notices for particular services might or might not represent appropriate amounts for exchange components, and some other members considered that these amounts are likely to be so arbitrary that rates should be regarded wholly as non-exchange transactions. The Board requested staff to address a range of scenarios for the provision of local government services in considering these issues further; and
- (c) the draft examples concerning certain inter-government transfers (Examples 19 and 20 in IPSAS 23) – the Board could not identify the rationale for the different outcomes in these examples, and decided to seek clarification of the examples from the IPSASB.

The Board noted that the mere specification of a time basis for a transfer would be insufficient under the proposals in the draft ED to allow the transferee to recognise the transfer as a liability initially and as revenue over the period specified for the use of the transferred resources: such a stipulation would not amount to a “condition on transferred assets”, as defined in the draft ED. The Board considered that this might not be clear from the draft ED itself and should therefore be emphasised in the Preface to the ED when it is drafted.

The Board discussed its previous decisions to make use of IPSAS 23 with as few changes as possible, and agreed to continue the project on that basis.

November 2008 The Board had before it:

- (a) a memorandum from Clark Anstis dated 5 November 2008 (Agenda Paper 7.1);
- (b) an extract from the draft minutes of the NZ Financial Reporting Standards Board

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meeting of 8 October 2008 (Agenda Paper 7.2); and

- (c) a draft Exposure Draft based on IPSAS 23, showing both NZ and Australian potential amendments (Agenda Paper 7.3).

The Board considered the views of the NZ FRSB members, as indicated in the draft minutes of their October meeting, as they discussed the draft Exposure Draft based on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, since those views had not been incorporated into the draft Exposure Draft.

The Board made the following decisions on the issues raised in the staff memorandum:

- (a) Issue 1 – the ED should be presented in consecutively-numbered paragraphs as an Australian/NZ ED, rather than presenting Australian-specific paragraphs as Aus paragraphs amongst IPSAS 23 paragraphs. A table of concordance should be added to allow comparison with IPSAS 23;
- (b) Issue 2(a) – the general terminology of the ED should reflect the broader scope of the ED in contrast to IPSAS 23: the ED would address not-for-profit entities in the public sector or the private sector, whereas IPSAS 23 is a Standard explicitly for public sector entities. Therefore, some of the terminology in the document should be generalised, and private sector examples included;
- (c) Issue 2(b) – the ED should use the term ‘income’ instead of ‘revenue’. IPSAS 23 uses the term ‘revenue’ without defining it. Based on the description of ‘revenue’ in IPSAS 9 *Revenue from Exchange Transactions*, the scope of IPSAS 23 appears to encompass both revenues and gains. To use terminology consistent with Australian Accounting Standards, the term ‘income’ should be used instead;
- (d) Issue 2(c) – the term ‘service potential’ should not be used in the ED, as it is rarely used in Australian Accounting Standards (including Interpretations) and therefore previously has been considered generally to be a non-essential term;
- (e) Issue 3 – the definitions in IPSAS 23 should be replaced with those from Australian Accounting Standards if they are inconsistent, a definition of ‘not-for-profit entity’ should be added, and the term ‘equity’ should be used instead of ‘net assets’;
- (f) Issue 4 – the option in IPSAS 23 concerning the recognition of services in-kind should be included in the ED, despite the existing requirements in AASB 1004 *Contributions* for the recognition of contributions of services by some public sector entities. However, the Board considered that the disclosure requirements concerning services in paragraph 108 should be strengthened;
- (g) Issue 5 – in respect of ‘advance receipts’, members supported the approach in IPSAS 23 in relation to taxes, but not in relation to transfers. Members did not support the draft additional guidance in the draft ED concerning when a transfer arrangement becomes binding, preferring not to seek to give the term ‘binding’ a technical meaning different from its ordinary meaning of ‘enforceable’. Members generally supported the view that revenue should be recognised by a transferee when grant monies are received in advance of the period for which they were intended, provided that there were no performance obligations that could be satisfied only during that period. In other words, the specification of a time basis for grants is not sufficient for the deferral of revenue and the recognition of a liability instead;

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- (h) Issue 6 – a small number of editorial corrections should be made to the text of IPSAS 23 for the ED, but that the potential changes to a few references in paragraphs 44-49 to the recognition of revenue from non-exchange transactions to exclude contributions from owners are not required, since paragraph 29 already states that contributions from owners do not give rise to revenue; and
- (i) Issue 7 – as the scope of IPSAS 23 does not cover all of the detailed requirements for various types of contributions that were added to AASB 1004 in December 2007, the Board requested staff to consider further whether those requirements should be included in the ED, proposed to be retained in a different Standard or otherwise dealt with. For example, IPSAS 23 does not cover some of the AASB 1004 requirements, such as distributions to owners, mandatory treatment of certain transactions as contributions by owners, and compliance disclosures.

The Board further discussed the advance receipts of transfers issues and noted that it is unclear from IPSAS 23 how specific the conditions of a transfer need to be in order to delay the recognition of income until the conditions are met, pointing particularly to examples attached to IPSAS 23 that show revenue recognition when transfers are intended to support an entity's 'general activities'. The Board requested staff to further consider multi-year examples, with some members taking the view that governments are liable for transfers only on an annual basis.

In reviewing the draft ED in detail, the Board also raised the following matters:

- (a) the scope of the ED in relation to financial liabilities accounted for under AASB 139 *Financial Instruments: Recognition and Measurement* needs to be considered;
- (b) references to external materials such as the *Framework for the Preparation and Presentation of Financial Statements* and the *Glossary of Defined Terms* should not be included in the ED, as these would be stationary references in a Standard;
- (c) the requirements in paragraph 18 of IPSAS 23 concerning the return of economic benefits to a transferor by deducting the amount to be returned from other assets due to be transferred to the transferee for other purposes does not need to be changed;
- (d) the relationship between the requirements in Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and the contributions from owners indicators in paragraph 38 of IPSAS 23 should be clarified, and the terms 'controlling entity' and 'controlled entity' in IPSAS 23 should be replaced with 'parent' and 'subsidiary', as used in Australian Accounting Standards, so that new definitions are not required;
- (e) in relation to paragraph 43 of IPSAS 23, AASB 138 *Intangible Assets*, paragraph Aus24.1, also includes the fair value requirement for assets acquired by not-for-profit entities at no cost or for a nominal cost.

The Board requested a revised draft Exposure Draft for their review at the December meeting.

July 2008

The Boards had before them:

- (a) tabled copies of PowerPoint slides entitled *IASB-FASB Revenue Recognition Project: Status Report and Implications for Revenue for Non-Exchange Transactions*, to which the staff spoke in their presentation to the Boards on revenue recognition (Agenda

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Paper B4.1);

- (b) a memorandum from Clive Brodie, dated 21 July 2008, re the IASB-FASB Revenue Recognition Project (Agenda Paper B4.2);
- (c) a memorandum from Clark Anstis, Annette Davis and Jim Paul on Income from Non-Exchange Transactions, dated 22 July 2008 (Agenda Paper B4.3);
- (d) a staff paper on Advance Receipts under IPSAS 23 (Agenda Paper B4.3.1);
- (e) a staff note on the Treatment of the IPSAS 23 Examples in Agenda paper B4.3.1 under AASB 1004 *Contributions* (Agenda Paper B4.3.2);
- (f) a staff note on the Treatment of the IPSAS 23 Examples in Agenda paper B4.3.1 under current New Zealand practice for public benefit entities (Agenda Paper B4.3.3);
- (g) *IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)* (Agenda Paper B4.4); and
- (h) AASB 1004 *Contributions* (Agenda paper B4.5).

In relation to their joint short-term project to develop a common Accounting Standard (which, in Australia, would replace AASB 1004 *Contributions*) based on *IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)*, the Boards:

- (a) received a staff presentation on developments in the IASB-FASB project on revenue recognition. The Boards considered the potential implications of those developments for the treatment of revenue from exchange transactions as compared with the treatment of revenue from non-exchange transactions in IPSAS 23. The Boards reaffirmed their decision to develop an exposure draft on revenue from non-exchange transactions that is based closely on IPSAS 23; and
- (b) discussed practical examples of how 'advance receipts' would be identified and treated under IPSAS 23. The Boards generally supported IPSAS 23 on this issue (which extends the circumstances under which liabilities would be recognised for non-exchange transactions in comparison with AASB 1004) and requested that the project team:
 - (i) develop draft guidance to clarify when a transfer arrangement becomes binding; and
 - (ii) prepare a staff analysis of how multi-year grants would be accounted for under IPSAS 23, particularly how to identify when such grants become binding; and
- (c) decided, in regard to recent correspondence between Mr Boymal (AASB Chairman) and Mr Ian McPhee (Auditor-General for Australia) in respect of accounting by grantors (included as Agenda Paper 6.2 of the AASB's separate meeting), to consider later whether to expand the scope of the project to address the accounting by transferors under non-exchange transactions. The Boards decided to continue their consideration of the accounting by transferees under non-exchange transactions without waiting to analyse transferor accounting.

The Boards will consider next whether any amendments to IPSAS 23 (other than adding guidance on binding arrangements) should be proposed in the exposure draft, and, if so, what those proposed amendments should be. The Boards indicated an intention to

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consider these issues by no later than November 2008.

February 2008

The Board had before it:

- (a) a memorandum from Clark Anstis dated 30 January 2008 (Agenda Paper 9.1);
- (b) issues paper on short-term approaches (Agenda Paper 9.2);
- (c) potential time line for short-term approaches (Agenda Paper 9.3); and
- (d) AASB 1004 *Contributions* (December 2007) (Agenda Paper 9.4).

The Board discussed a number of potential alternative short-term approaches to amending the requirements for not-for-profit entities in relation to accounting for income from non-exchange transactions and noted that this project is being carried out jointly with the FRSB.

Board members discussed the possibility of withdrawing AASB 1004 and requiring not-for-profit entities to instead apply AASB 118 Revenue and/or AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, which are the requirements presently applying to for-profit entities. However, some members considered that additional guidance would be needed to clarify their application to some types of non-exchange transactions that were significant to not-for-profit entities. Some members suggested that guidance concerning only the accounting for tax income might be required to be added, since both for-profit and not-for-profit entities would then be subject to the same requirements.

Some members questioned whether applying the requirements of AASB 118 and AASB 120 would result in appropriate accounting for not-for-profit entities, and took the view that if AASB 1004 was to be replaced, consideration should be given to adopting an Australian version of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, either with or without limited modifications. Members discussed whether that Standard would result in the deferred recognition of income from non-exchange transactions that were expressed to relate to a specified future period without coming to a view. Members noted the difficulties identified by some preparers and users of financial reports when time-based grants are recognised as revenue upon receipt under the requirements of AASB 1004.

The Board decided that staff should develop a modified version of IPSAS 23 with the assistance of the two Boards' joint project sub-committee of members which would then be considered as the basis for an exposure draft.

December 2007

The Board had before it:

- (a) a memorandum from Clark Anstis and Kimberley Crook dated 29 November 2007 (Agenda Paper 14.1); and
- (b) a staff paper "*Income from Non-Exchange Transactions – Approach to AASB-FRSB Project*" (Agenda Paper 14.2).

The Board discussed a number of options for progressing the joint project with the FRSB. Under non-exchange transactions, assets are transferred to an entity without the transferor directly receiving approximately equal value in exchange. Common examples are some government grants, donations, bequests and taxes. Board members noted that, in Australia, AASB 1004 *Contributions* contains requirements for not-for-profit entities in relation to such transactions, whereas New Zealand has no specific requirements.

The Board discussed the possibility of withdrawing AASB 1004 and requiring not-for-profit

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entities to instead apply AASB 118 *Revenue* to non-exchange transactions. Other options discussed included adopting IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, either with or without limited modifications. Members noted that one of the difficulties with the latter approach would be deciding the modifications that are warranted in advance of the Boards completing the conceptual project. Sector neutrality was also raised, since for-profit entities are required to comply with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

The Board took the view that the longer-term conceptual project on income from non-exchange transactions should be continued, but that the staff also should develop recommendations on potential short-term solutions to the issues for its consideration.

October 2007

The Boards had before them:

- (a) a memorandum from Clark Anstis, Annette Davis and Jim Paul dated 27 September 2007 (Agenda Paper 7.1);
- (b) a draft Issues Paper “Income from Non-Exchange Transactions” (October 2007) – clean copy (Agenda Paper 7.2); and
- (c) a marked-up copy of the draft Issues Paper (Agenda Paper 7.3).

The Boards discussed the draft Issues Paper regarding how to identify non-exchange transactions and the accounting by recipients for them. In particular, members discussed the formal questions set out in the draft Issues Paper. The main points made during the discussion are described below.

Distinguishing Exchange and Non-Exchange Transactions

Board members noted that Accounting Standards AASB 118/NZ IAS 18 *Revenue* presently adopt an earnings basis for the recognition of revenue. Some Board members argued that a distinction between exchange and non-exchange transactions therefore is required, since exchange transactions involved an earnings process but non-exchange transactions do not, thus requiring the recognition of income when assets are received under a non-exchange transaction. Some members considered that there is a continuum between exchange and non-exchange transactions, with some transactions having exchange and non-exchange components.

Other Board members supported the view that a distinction between exchange and non-exchange transactions is not required, arguing that the principal issue is whether the recipient of a transfer of assets has incurred a liability and therefore whether the entity has earned and should recognise income. Members noted that the AASB had adopted this view in Exposure Draft ED 125 *Financial Reporting by Local Governments* (October 2003), which had not progressed to a revised Standard. Other members characterised the principal issue in terms of revenue recognition, rather than liability recognition. Others commented that it is difficult to label the different views regarding the recipient accounting for non-exchange transactions as adopting either a balance-sheet approach or an earning/matching focus, since each involves a view of which transaction conditions give rise to a liability.

Members commented that AASB 118/NZ IAS 18 do not specifically address non-exchange transactions or revenue recognition issues facing not-for-profit and public sector entities generally. Some members took the view that these issues need to be addressed, whilst others considered that such entities should be required or allowed to apply AASB 118/ NZ IAS 18. Members noted that the IPSASB had recently issued IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in order to address the issues separately from

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its Standard IPSAS 9 *Revenue from Exchange Transactions*.

Stipulations and Liabilities

Members discussed stipulations imposed by transferors on transfers of assets and whether time stipulations or performance obligations (as defined in IPSAS 23) would require a liability to be recognised. Members questioned the relationship between performance obligations and present obligations as referred to in the definition of a liability. Members considered Example 5 regarding local government rates levied for the next reporting period and questioned whether there is a performance obligation. Members agreed that the Issues Paper should address time-based income recognition in more detail, noting that IPSAS 23 has an exception for advance receipts.

One member commented that, if the recipient has a contingent contractual obligation for the return of cash to the transferor, the recipient has a financial liability under paragraph AG8 of AASB 139/NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Another member suggested that this may not be the case since the recipient has control over whether the return of financial assets is required.

Draft Issues Paper Views on Recipient Accounting for Non-Exchange Transactions

Members discussed their preferred views, both in concept and in terms of practical application. Conceptually, a majority of FRSB members and a large minority of AASB members supported View 5, under which income would be recognised when the transferred assets are recognised, except to the extent that a liability would be recognised for an obligation to stand ready to return assets to the transferor if transfer conditions are not met. A few AASB members supported View 4, the accounting presently required of not-for-profit entities under AASB 1004 *Contributions*, resulting in a majority of the AASB members present at the meeting supporting in concept either View 4 or View 5. Views 4 and 5 relate liability recognition to return obligations (more specifically, the breach of return obligations, in the case of View 4) rather than performance obligations.

Other Board members supported, in concept, Views 1B, 1C, 1D or 3. No members supported View 1A (IPSAS 23 as issued) or View 2 (matching income recognition to the outflows for related costs).

Members did not discuss specifically the practical application issues set out in Section 11 of the draft issues paper regarding distinguishing exchange and non-exchange transactions. However, they discussed the practicability at present of determining the probability of the return of transferred assets, which would be required for liability measurement under View 5. Some members suggested that such an approach goes beyond current liability measurement requirements in AASB 137/NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, under which probability is a recognition criterion rather than part of the measurement basis. Other members noted that the IASB's proposed revisions to IAS 37 would replace the "probable return" criterion for the recognition of a liability with the notion of stand-ready obligations, which are the basis of View 5.

Subsequent to discussing members' preferred approach in concept, members were asked to identify their preferred approach in light of practical application considerations. In terms of practical application, members' preferred views changed in some cases from their conceptual views, with some additional abstentions also. Fewer members supported View 5, but more supported View 4, with the result that a majority of FRSB members, and a majority of AASB members expressing a view, supported either View 4 or View 5. Other members supported, in practice, Views 1C, 1D or 3. No members supported Views 1A, 1B or

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2.

IASB/FASB Revenue Recognition Project

Members discussed the impact on the project of the forthcoming IASB/FASB discussion paper on revenue recognition. Staff reported that the discussion paper is expected to be published in the first quarter of 2008 and is likely to present two approaches to revenue recognition (one basing measurement of an obligation to a customer on the fair value of the obligation incurred and the other on the customer's consideration) without indicating any preference. Members agreed that the project should continue, with the issues paper discussing implications of relevant aspects of the IASB/FASB paper, provided that the latter paper is published in the timeframe indicated.

August 2007

The Board had before it:

- (a) a memorandum from Jim Paul and Clark Anstis dated 26 July 2007 (Agenda Paper 13.1);
- (b) a draft issues paper on income from non-exchange transactions that updates the version considered by the Board in December 2006 (Agenda Paper 13.2); and
- (c) a table for inclusion in future drafts of the issues paper, entitled "*Recognition of Various Transfers under Each View*" (Agenda Paper 13.3).

The Board held a non-deliberative discussion of the draft issues paper (and the additional table), which it will discuss at its joint meeting with the New Zealand FRSB in October 2007. The purpose of the discussion was to provide comments to staff on the suitability of the draft issues paper as a platform for those joint Board deliberations.

The Board also suggested a number of revisions to the draft issues paper noted in [Attachment D](#).

The staff advised the Board that, after effecting the Board's directions and incorporating input from the FRSB, the draft issues paper will, if time permits, be provided to the project subcommittee for comment before the joint Board meeting.

February 2007

The Board had before it:

- (a) a memorandum from Jim Paul and Kimberley Crook dated 30 January 2007 (Agenda Paper 11.1); and
- (b) an issues paper on revenue from non-exchange transactions (Agenda Paper 11.2).

The Board noted that the FRSB has accepted the Board's invitation to jointly develop a Standard on revenue from non-exchange transactions, and agrees with the Board's view that the proposed exposure draft should draw on the best features of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance and other Standards* (domestic and foreign).

In relation to due process and project management, the Board decided that:

- (a) the first public consultation paper for this project should be a discussion paper;
- (b) if the Boards cannot agree on some issues, each view should be discussed in the discussion paper;
- (c) the staff should explore means of completing the project before the date estimated in the staff memorandum (second quarter of 2010);

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- (d) a joint AASB-FRSB Subcommittee should steer the project by reviewing draft Board materials and providing input on issues to the project team;
- (e) the views of Subcommittee members will be included in Board materials. However, the Subcommittee will not be constituted as a deliberative body, and it is not necessary for the Subcommittee to reach consensus on the issues discussed. If views of project team members differ from those of the Subcommittee, those views would also be included in Board materials;
- (f) the Australian members of the Subcommittee will be Mr Appleyard, Mr Kaufmann, Mr O'Grady and an interested party from the not-for-profit private sector. (It was agreed that, in the first instance, the Board's not-for-profit (private sector) focus group should be approached in relation to this last position); and
- (g) a project team, composed of members of the staffs of both Boards, should be established with the AASB's staff taking the lead role in developing materials for the Subcommittee and Boards.

In relation to decision (c), Mr Kaufmann observed that the final Invitation to Comment (ITC) issued on this topic by the IPSASB was of a high quality and should be used as a starting point for drafting the Boards' discussion paper. He said the ITC text would need remodelling to cover issues on this topic addressed in AAS 27, AAS 29 and AAS 31, and that the staff should consider the submissions received on that ITC by the IPSASB.

The Board noted that the FRSB will invite its Public Benefit Entities (PBE) Working Group to monitor the project and provide input on issues and developments. The PBE Working Group will not be tasked with reviewing draft Board materials.

In relation to decision (g), the Board noted that the FRSB's staff has agreed to act mainly in a review and liaison role (to liaise with the FRSB, New Zealand Subcommittee members, and PBE Working Group).

December 2006

The Board had before it:

- (a) a memorandum from Jim Paul and Simon Lee dated 6 December 2006 (Agenda Paper 15.1);
- (b) an issues paper on revenue from non-exchange transactions (Agenda Paper 15.2);
- (c) the AASB's submission on IPSASB ED 29 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* (Agenda Paper 15.3); and
- (d) the New Zealand FRSB's submission on IPSASB ED 29 (Agenda Paper 15.4).

The Board considered the issues paper in the light of the approval of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* at the IPSASB's November 2006 meeting and decided to initiate a project to develop a replacement Standard for AASB 1004 *Contributions* and to invite the FRSB to join the AASB in developing a joint Standard on the topic.

The Board decided to limit the scope of the project to revenue from non-exchange transactions (otherwise known as non-reciprocal transfers) of not-for-profit entities, rather than all revenue of not-for-profit entities.

The Board directed the staff to add the following approaches and examples to those identified in the issues paper:

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- (a) recognition of revenue from non-exchange transactions on a time or output basis regardless of whether explicit stipulations are made by the transferor (a so-called “pure matching” basis);
- (b) applying the approaches to multi-period grants between governments; and
- (c) applying the approaches to service concessions, and exploring whether the grantor and grantee in a service concession should apply symmetrical accounting.

The Board also directed the staff to:

- (d) liaise with the FRSB and report back on its proposals for the operating procedures for a joint project (if it agrees to participate in the project), including proposed structure of a joint Subcommittee;
- (e) articulate possible criteria for distinguishing exchange transactions from non-exchange transactions;
- (f) explore how to distinguish exchange and non-exchange components of a transaction; and
- (g) explore how the revenue recognition criteria in AASB 118 *Revenue* might be applied to the exchange component of a transaction involving exchange and non-exchange components.

The Board agreed that once a new Standard is developed by the AASB and FRSB, the IPSASB should be encouraged to review and improve IPSAS 23 accordingly.

ATTACHMENT 1

Income from Non-exchange Transactions

Agenda item 4

The Board decided in respect of the ED that:

- (a) in relation to financial assets and financial liabilities:
 - (i) they should be measured in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* at fair value adjusted for transaction costs, except that all 'day 1' gains and losses (not just those that AASB 139 would require to be recognised immediately) should be recognised as part of any initial non-exchange income amount, with this proviso noted in the Basis for Conclusions;
 - (ii) the proposed additional Example 15A in the Implementation Guidance should be included in the ED, with the financial liability being recognised at fair value (for illustrative purposes, the example ignores transaction costs);
 - (iii) paragraph BC15, which compares the recognition of financial liabilities under the proposals in the draft ED and under AASB 139, should be deleted; and
 - (iv) the proposed consequential amendment to add a paragraph to AASB 139 in respect of the recognition of financial assets and financial liabilities arising under non-exchange transactions in accordance with the [resulting] Standard on non-exchange transactions should be proposed to be placed after paragraph 14 of AASB 139, as paragraph Aus14.1;
- (b) the description of an asset in paragraph 31 of the ED did not need to refer to the definition in AASB 138 *Intangible Assets*;
- (c) paragraph 44 should refer to the acquisition of assets within the scope of the Standards listed by not-for-profit entities, and paragraph 84 should be worded consistently with paragraph 44;
- (d) paragraph 66(a) should refer to the earning of taxable income, not assessable income, as the likely taxable event in relation to income tax;
- (e) Example 20 in the Implementation Guidance should be deleted as it appears to be inconsistent with Example 19 and the proposals in the ED;
- (f) paragraph BC6 concerning the Boards' decision not to propose extending the scope of AASB 120 / NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is supported, with part (c) to note that the IASB had indicated an intention to review IAS 20;
- (g) the Basis for Conclusions paragraph on the proposed transitional provisions should be expanded to clarify the intent of the proposed prospective application from the start of the earliest comparative period presented;
- (h) the consequential amendments proposed to Aus paragraphs for not-for-profit entities in AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* should refer to assets acquired through a non-exchange transaction being recognised and initially measured in accordance with the [resulting] Standard on non-exchange transactions, rather than specifying the measurement basis directly; and
- (i) in relation to the Preface to the ED:

- (i) a joint Australian/New Zealand question should be added to solicit views on whether there are any differences between the two jurisdictions that would override the Boards' desire for converged Standards for non-exchange transactions;
- (ii) the question concerning whether further guidance is needed in relation to parliamentary appropriations and local government rates should be presented as a joint Australian/New Zealand question, referring to distinguishing exchange and non-exchange transactions or components, and with the deletion of the reference to appropriations;
- (iii) the request for constituent views on the retention of requirements for restructures of administrative arrangements and on whether recognition requirements are needed for contributions from owners and distributions to owners should be separated; and
- (iv) constituent views should be requested concerning the role of AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* if a Standard based on the ED were issued.

ATTACHMENT D

INCOME FROM NON-EXCHANGE TRANSACTIONS

Agenda item 13

The Board asked the staff to make the following changes to the draft issues paper (if need be, by bullet point for the purposes of the October 2007 meeting):

- (a) to explain more clearly the objective of the project, and the reasons why the AASB and FRSB initiated the project (including the problems the Boards are attempting to solve), relating these to the information needs of users of financial statements;
- (b) to define stipulations and
 - (i) include various examples of the types of stipulations that might be imposed on a transferee in relation to transferred assets; and
 - (ii) clarify whether the definition of a stipulation covers time-based transfers (e.g., time-based grants);
- (c) to include a more comprehensive set of extracts from authoritative pronouncements on the subject;
- (d) to include a more comprehensive summary of the requirements of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*—for example, the meaning and treatment of “advance receipts” should be explained more fully;
- (e) to review the IPSASB’s Invitation to Comment *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* and the submissions on IPSASB ED 29 (of the same title) to ensure all relevant issues and Views are discussed in the Boards’ issues paper;
- (f) to make more references to the IASB Framework in the analysis of the issues;
- (g) to clarify the meaning of “performance obligations”. For example, whether they include:
 - (i) stipulations requiring a transferee to transfer assets if it fails to acquit a transfer;
 - (ii) stipulations that the entity would endanger or lose future transfers if it fails to acquit a transfer; and/or
 - (iii) stipulations that a transferee must provide asset construction services through contracting another entity to perform;

- (h) to discuss a View that income should be recognised as and when time-based stipulations related to transferred assets expire, regardless of whether those stipulations constitute “performance obligations”;
- (i) to include the additional table (Agenda Paper 13.3), which in turn should include:
 - (i) an additional transfer in which time alone is the stipulation;
 - (ii) a View that corresponds to the treatment in IAS 18 *Revenue*;
- (j) to discuss a View that capital transfers should be credited directly to equity and recycled as income when the related costs are incurred, and make reference to submissions or other literature from United Kingdom sources that support this View;
- (k) to analyse how the Views would be applied to the treatment of taxes, which are received without taxpayer-imposed stipulations;
- (l) to include more extensive discussion of how to distinguish exchange transactions from non-exchange transactions. For example, it should discuss:
 - (i) whether the meaning of “exchange transactions” can and should be broadened;
 - (ii) comprehensively how the distinction between exchange transactions and non-exchange transactions is made in the accounting literature;
 - (iii) the implications of linkage between contracts and linkage between the circumstances within a transaction; and
 - (iv) how to distinguish each of the following: taxes, levies, grants and fees received for services to be delivered;
- (m) to discuss whether government’s sale of a restricted or exclusive right to charge for a service is a sale of an intangible asset, and thus revenue, or the incurrence of an obligation to the buyer of that right (an obligation to protect that restricted or exclusive right) in return for the buyer’s consideration, and thus a liability. Examples are sales of licences to operate lotteries and sales of rights to provide a monopoly service;
- (n) to discuss the view that:
 - (i) if IAS 18 *Revenue* were based on identifying and measuring assets and liabilities (and changes in them), it could be applied to revenue recognition from all transfers and thus the distinction between exchange and non-exchange transactions would be irrelevant; whilst
 - (ii) under IAS 18’s current approach to revenue recognition, which focuses on deferral of the customer’s consideration until it is earned, the distinction between exchange and non-exchange transactions is relevant;
- (o) to note the Board’s policy of transaction neutrality, discuss the implications of that policy for the treatment of exchange and non-exchange transactions by not-for-profit entities, and note which Views might be consistent with that policy;
- (p) to discuss the treatment of government-to-government transfers; and
 - (i) clarify whether the IFRS with the more appropriate scope and principles would be IAS 18 or IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (while noting that applying the principles in IAS 18 and IAS 20 arguably give rise to different outcomes for transfers provided on the stipulation that matching funding be obtained or the transferred assets be returned to the transferor);
 - (ii) note that, at present, transferor and transferee governments sometimes account for such transfers inconsistently; and

- (iii) discuss whether transferors and transferees should account for transfers consistently, while noting that this issue is not the primary focus of the project; and
- (q) to present a summary of the discussion included in the current draft in the body of the issues paper, with other details transferred to appendices.