



Project:	Income of Not-for-Profit Entities	Meeting	AASB November (M154)
Topic:	Benefits of AASB 10XX and estimation of regulatory burden	Agenda Item:	1.10
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		Decision-Making:	For information only
		Project Status:	Pre-ballot draft of Standard

Introduction and objective of this paper

- 1 The objective of this paper is to provide information about (i) the benefits of the *Income of Not-for-Profit Entities* Standard (referred to hereafter in the paper as ‘AASB 10XX’), (ii) the estimation of the regulatory burden measure in relation to the Standard and (iii) an overall assessment.
- 2 This paper is for information only and there are no questions for the Board.
- 3 This paper is structured as follows:
 - (a) Benefits of AASB 10XX (paragraphs 4-8)
 - (b) Estimation of regulatory burden (paragraphs 9-13)
 - (c) Overall assessment (paragraph 14)

Benefits of making AASB 10XX

- 4 The AASB project to improve not-for-profit (NFP) reporting has been undertaken in close consultation with the NFP community, the ACNC and the users of NFP financial reports. Through that partnership, AASB 10XX aims to improve the income recognition requirements and guidance that apply to NFP entities, in conjunction with the implementation guidance to AASB 15 *Revenue from Contracts with Customers* (which will be issued at the same time as AASB 10XX).
- 5 The requirements of AASB 10XX and AASB 15 will more closely reflect the economic reality of NFP entity transactions (such as donations, grants and contributions received) and best respond to constituent concerns about the operation of the income recognition requirements set out in AASB 1004, compared to the other

alternatives the Board considered. The Board's policy of transaction neutrality means that the application of AASB 15 to NFPs needed to be addressed; however the concept of performance obligations in AASB 15 has enabled a fundamental change to income recognition for NFPs. The performance obligation approach is more comprehensible than the reciprocal approach of AASB 1004. AASB 10XX and AASB 15 provide a better reflection of the underlying substance of the transfers made to a not-for-profit entity recipient. There will be more deferral of income, income recognition will depend on whether there is any liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to the cash or grant received. This is in contrast to the current requirements of AASB 1004 where most common NFP transactions result in the immediate recognition of income, even when restrictions or conditions are imposed. AASB 1004 distinguishes transactions based on whether they are reciprocal or non-reciprocal (i.e. whether there is an equal exchange of value). Entities find it challenging to determine whether approximately equal value has been exchanged in a transaction, and this has resulted, in many instances, the immediate recognition of income in a transaction that does not faithfully represent the underlying financial performance of the entity.

- 6 AASB 10XX also provides greater transparency of an entity's assets and liabilities which results in better accountability and stewardship. In general, assets will be measured at fair value at initial recognition where that asset has been acquired for consideration that is significantly less than fair value, or if no consideration was provided, and the difference is principally to enable the entity to further its objectives. This helps address the current ambiguity in accounting for leases with significantly below fair value payments and for other assets where the consideration is more than nil or nominal value but significantly less than fair value.
- 7 Under AASB 10XX, entities would also be able to disclose information about externally imposed restrictions on funds used by the entities. This disclosure would not be mandatory and would provide entities an opportunity to explain to users of their financial statements the restrictions that they have on some of the funds recognised as income in the financial period.
- 8 Financial reports will better reflect the underlying economic circumstances when applying AASB 10XX. Clear guidance and extensive examples of the application of revenue recognition in the NFP context is included in the Standard to help preparers determine the most appropriate treatment for their entity's transactions.

Estimation of regulatory burden

- 9 Australian Accounting Standards issued under section 334 of the *Corporations Act 2001* are legislative instruments in Australia. Consequently, the Australian Accounting Standards Board is generally required to undertake a rigorous policy review process in line with *The Australian Government Guide to Regulation* (the Guide) when issuing such standards. The estimation of a regulatory burden measure (RBM), the incremental transitional and ongoing costs/benefits related to the issue of AASB 10XX, is one part of the process. The purpose of estimating the RBM related to AASB 10XX is to assist the Australian Government in identifying offsets by reductions in existing regulatory burden.

- 10 The model to estimate the RBM uses data collected from constituents and extrapolates it over the population to form an estimate of the cost burden imposed on business, community organisations and individuals from implementation of AASB 10XX.
- 11 The range of entities/constituents consulted was broad , ranging from:
 - (a) consolidated group entities involved in international activities to schools; and
 - (b) entities where the impact of AASB 10XX was expected to be “high” through to “low”.
- 12 The additional regulatory burden that would arise from the issuance of AASB 10XX that was agreed with the OBPR on 3 November 2016 is \$13.2 million.
- 13 The largest impact of the regulatory burden is anticipated to be borne by large multinational entities with diverse income transactions that are not contracts with customers, with simpler entities not having the same issues. Smaller entities are anticipated to incur training and advice costs on transition to establish systems and processes to capture the data required by the new rules. AASB 10XX provides significant transition relief to help with transitioning to the new requirements.

Overall assessment

- 14 Following the consultation period, and after considering constituent comments received, the Board would be justified in proceeding with issuing revised principles for the recognition and measurement of income of not-for-profit entities largely as exposed (i.e. AASB 10XX and implementation guidance to AASB 15). The identified benefits of the revised requirements exceed the costs of the revised requirements.