



Staff Paper

March 2011, Joint Agenda Paper J3.4

Revenue from Contracts with Customers: FRSB Update

Purpose of this Paper

1. This paper outlines recent FRSB discussions on income from non-exchange transactions and previous FRSB views on *Revenue from Contracts with Customers*. The purpose of this paper is to provide relevant background for the Boards' discussion of the adoption of the forthcoming IFRS on *Revenue from Contracts with Customers*.

February 2011 FRSB meeting

2. The February 2011 FRSB agenda included papers on implications of pursuing a performance obligations approach to the recognition and measurement of liabilities arising from income from non-exchange transactions. Identical papers were included in the AASB February agenda.
3. The FRSB had a general discussion about the direction of the project and the possible forms of guidance that could result from the project including:
 - (a) a revised ED applying to NFP/PBE only and dealing with either (i) income from non-exchange transactions or (ii) all NFP/PBE income; and
 - (b) an ED proposing additional NFP/PBE guidance in the forthcoming IFRS on *Revenue from Contracts with Customers*.
4. The FRSB noted that one of the key issues addressed in agenda paper B7.2 was whether it was necessary to retain the exchange/non-exchange distinction. FRSB members had mixed views about the possibility of removing this distinction and developing a single set of guidance for application by NFP/PBE. A number of members expressed support for removing this distinction but some expressed reservations about proposing different measurement requirements for PBEs than the proposals put forward by the IASB in its ED *Revenue from Contracts with Customers*. Some indicated a preference for dealing with all

NFP/PBE revenue under the forthcoming IFRS. There was no clear consensus on this issue.

5. The FRSB noted the concerns expressed by staff regarding the projected timetable. The FRSB agreed that the timetable was ambitious and could easily be held up by delays in the IASB's project. Having regard to the limited time available to the FRSB to finalise proposals the FRSB noted that the forthcoming XRB would most likely be the body responsible for finalising proposals.
6. In considering the joint AASB-FRSB meeting in March 2011, the FRSB requested that staff prepare papers regarding application of the forthcoming IFRS on *Revenue from Contracts with Customers* by NFPs/PBEs. The FRSB had in mind that the papers would consider narrow and broader scope proposals.
7. The AASB's tentative decisions on the February agenda papers are outlined in Agenda Paper J3.5. Although the AASB has agreed to continue to develop guidance for revenue of PBEs/NFPs, having regard to the performance obligations approach in the forthcoming IFRS on *Revenue from Contracts with Customers*, that work will still be in progress when that IFRS is issued. The agenda papers for this meeting therefore consider whether, in the short term, the Boards should propose any NFP/PBE modifications to the forthcoming IFRS on *Revenue from Contracts with Customers*, including any scope modifications.

ED 2010/6 Revenue from Contracts with Customers

8. The FRSB issued a Request for Comment on the IASB's ED/2010/6 *Revenue from Contracts with Customers* in June 2010. Due to the review of the regulatory reporting framework in New Zealand the FRSB did not propose any PBE modifications at that time. Extracts from the Request for Comment are shown below.

In light of the current uncertainty regarding the future financial reporting framework in New Zealand and the possibility that, as a result of the IASB considering constituents' feedback, the requirements in the final standard may differ from those in the Exposure Draft, the FRSB concluded that currently it is not the appropriate time to issue proposals for PBE modifications or differential reporting concessions in respect of the Exposure Draft. However, if the proposed standard were to be applicable to PBEs the FRSB's expectation is that little, if any, modification would be appropriate. This is because the proposed standard specifies the accounting for revenue

arising from contracts with customers which are primarily exchange transactions. Accounting for revenue from non-exchange transactions is the subject of a separate project the FRSB is undertaking jointly with the Australian Accounting Standards Board (AASB). The FRSB's expectation is that, if the proposed standard were to be applicable qualifying entities, it is likely that some differential reporting concessions would be appropriate.

Once there is some certainty regarding the outcome of the review of the financial reporting framework, including the expected timing of any changes, the FRSB (or its successor) and the AASB will consider whether PBE modifications and/or differential reporting concessions should be proposed. For example, if the final IFRS is expected to apply to PBEs, the two boards will assess the IASB's proposals against the criteria in the AASB-FRSB's *Process for Modifying IFRSs for PBE/NFPs* to identify possible PBE modifications. Similarly, if applicable under the revised financial reporting framework, differential reporting concessions will also be considered. Although differential reporting concessions and PBE modifications have not yet been proposed, any views of New Zealand constituents on potential PBE modifications and differential reporting concessions would be welcomed. Those views will greatly assist the FRSB and AASB in their future deliberations as outlined above.

9. Possible PBE/NFP-specific issues were considered at the AASB/FRSB joint meeting in March 2010, prior to the IASB's ED being finalised. These issues were re-examined in the February 2011 agenda papers.
10. The FRSB received two responses on ED/2010/6, one of which identified possible PBE issues. The PBE issues raised by New Zealand respondents (except those for which the IASB and FASB have changed position since that ED) are addressed in Agenda Paper J3.3.