

Extract from Draft Minutes of AASB meeting held on 9 – 10 February 2011

Income from Non-Exchange Transactions

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-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 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.¹

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.

¹ Staff advise that, due to other project demands, this paper could not be prepared in time for the March meeting.