

Staff Strategy Paper

Income from Non-exchange Transactions: Scope of the Standard, and Adopting a Performance Obligations Approach to Identifying Liabilities

Purposes of this Paper

1 The purposes of this paper are to consider options for the treatment of performance obligations within the context of developing a joint Standard on Income from Non-Exchange Transactions. Options considered within this paper are:

- (a) to develop an approach in which liabilities to provide goods or services that arise from non-exchange transactions:
 - (i) are identified as enforceable performance obligations; and
 - (ii) in turn, enforceable performance obligations are identified using the principles in the IASB-FASB Exposure Draft *Revenue from Contracts with Customers* (the Boards decided to explore this approach: see paragraph 4).

Under this approach, guidance (including any PBE/NFP modifications) could be contained in the domestic Standard incorporating the IFRS on Revenue, or by including relevant text based on that IFRS in the joint Standard on Income from Non-Exchange Transactions;

- (b) to exclude obligations to ‘customers’ (whether performance obligations, return obligations or any other obligations) from the scope of the Boards’ joint Standard on Income from Non-Exchange Transactions. Under this approach, any obligation arising from a non-exchange transaction would be accounted for under the Standard on Revenue *without any PBE/NFP modifications*, and the Standard on Income from Non-Exchange Transactions would deal with inflows of assets to the extent that they do not give rise to obligations; and
- (c) to proceed with the approach in AASB ED 180/FRSB ED 118 *Income from Non-Exchange Transactions (Taxes and Transfers)*. Under ED 180/ED 118 a performance obligation to provide goods or services that arise from a non-

exchange transaction is recognised as a liability only if there is a condition establishing a return obligation.

- 2 Under all three of these options, if assets are received by a PBE or NFP in a non-exchange transaction without any accompanying obligation, the transaction would be recognised as income immediately under the joint Standard on Income from Non-Exchange Transactions.
- 3 The Boards requested that staff explore the approach outlined in Agenda Paper B4.4 as an alternative to the proposals in ED 180/ED 118. This paper asks whether the Boards consider that the approach outlined in Agenda Paper B4.4, or the option of excluding obligations arising from non-exchange transactions from the scope of the proposed joint Standard, would represent a better way forward than continuing with the proposals in ED 180/ED 118.

Introduction

- 4 At their March 2010 joint meeting, the AASB and FRSB tentatively decided 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; and
 - (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.
- 5 The Boards agreed to consider the implications of that approach. The attached staff paper (Agenda Paper B4.4) discusses the issues arising from applying that approach.
- 6 Given the complexity of some of the issues discussed in Agenda Paper B4.4, some AASB staff members asked whether obligations arising from non-exchange transactions should be excluded from the scope of the Boards' joint Standard on Income from Non-Exchange Transactions. If such obligations were excluded from the scope of that Standard, the context of the issues discussed in Agenda Paper B4.4 would change. Accordingly, this question is discussed first.

Scope of the Standard on Income from Non-Exchange Transactions

- 7 Paragraph 11 of ED 180/ED 118 says “There is a ... group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognised separately”.¹ Paragraph 42 of ED 180/ED 118 adds that “Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognises the exchange component according to the principles and requirements of other Australian Accounting Standards / NZ IFRSs”.² Under that ED, exchange transactions are defined as “transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange” (paragraph 8).
- 8 Under the proposals in ED 180/ED 118, liabilities would be identified in respect of non-exchange transactions in particular circumstances. Some commentators argue that, when a liability arises from a non-exchange transaction as defined in the ED, it should be accounted for under the Revenue Standard without any PBE/NFP modification. In other words, even though the liability arises from a non-exchange transaction as defined in the ED, they propose that it should be accounted for as if it arose from an exchange transaction. They argue this because they consider that the obligation is not different from an obligation arising from an exchange transaction accounted for under AASB 118 *Revenue*/NZ IAS 18 *Revenue*. To them, the fact that the obligation arose from a transaction with a non-liability component attached should be irrelevant to the treatment of the liability component.
- 9 Consider, for example, a purchase of a ticket for a charity dinner at a price of \$100, when the value of the dinner is \$50. The transaction involves two components: a purchase of a dinner for \$50 and a donation of \$50. Until the dinner is provided, the charity has a liability with a value of \$50. These commentators referred to in

¹ This text is consistent with paragraph 10 of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

² This text is consistent with paragraph 41 of IPSAS 23.

paragraph 8 propose that the liability to provide the dinner, and the generation of revenue by providing that dinner, should fall within the scope of the Revenue Standard. Only the donation would fall within the scope of the joint Standard on Income from Non-Exchange Transactions.

10 Supporters of the approach proposed in paragraph 8 support applying the Revenue Standard only to recognise income from non-exchange transactions that results from satisfying obligations to provide goods or services (for example, they would not support applying the Revenue Standard without amendment to grants received without stipulations). This is because the Australian and New Zealand Standards incorporating IAS 18 *Revenue* implicitly apply to the satisfaction of obligations in the form of specific promises to provide goods or services to customers, and the IASB-FASB ED *Revenue from Contracts with Customers* would explicitly apply to the satisfaction of such obligations. Therefore, these commentators consider that the Standards incorporating IAS 18 and its proposed replacement do not provide useful guidance on the recognition of revenue or other income from transactions—or their components—that do not give rise to obligations. They note that:

- (a) presently, IAS 18 presumes that all revenue can be associated with the provision of particular goods or services, and does not provide guidance on recognising revenue for inflows of assets without the related provision of goods or services; and
- (b) the IASB-FASB ED on Revenue deals only with revenue from contracts with customers, in respect of which revenue is recognised when goods or services are transferred to customers.

Accounting for all performance obligations under the Revenue Standard

Arguments for that treatment

- 11 Requiring the obligation component of a non-exchange transaction to be accounted for under the Revenue Standard would have the advantage of simplicity and consistency in treatment between for-profit entities and PBEs/NFPs for transactions giving rise to obligations. The IFRS would apply without amendment. Arguably, requiring any obligation to be accounted for under the Revenue Standard, regardless of whether it arose from an ‘exchange transaction’ or ‘non-exchange transaction’, would help overcome concerns expressed by some respondents to ED 180/ED 118 that the distinction between exchange transactions and non-exchange transactions in that ED is unclear and would be difficult to apply in practice.
- 12 The Boards decided to explore identifying performance obligations from non-exchange transactions consistently with how those obligations are identified under the IFRS on Revenue. If the Boards confirmed that approach, it would make little difference whether performance obligations arising from non-exchange transactions were to be accounted for under the IFRS on Revenue without amendment or under the joint Standard on Income from Non-Exchange Transactions. However, if the Boards do not confirm that approach (for example, if they reverted to the proposed liability identification criteria in ED 180/ED 118), the circumstances in which liabilities would be recognised could differ according to whether performance obligations fell within the scope of the IFRS on Revenue.
- 13 If the AASB and FRSB required the obligation component of a non-exchange transaction to be accounted for under the Revenue Standard, the Boards would need to decide whether each country’s current Standard on Revenue should be applied, or whether only the replacement for those Standards (developed from the IASB-FASB ED on Revenue) should be adopted. In view of the significant differences between IAS 18 *Revenue* and the proposals in the IASB-FASB ED on Revenue, AASB and NZICA staff consider it desirable to avoid requiring more than one significant change in how income from non-exchange transactions is accounted for. This outcome could be achieved in more than one way, and is subject to the uncertain timing and content of the IFRS that replaces IAS 18. This ‘transition’ issue is not addressed in the

agenda papers for this AASB/FRSB meeting. AASB and NZICA staff think it is appropriate at this stage to focus only on which of the options described in paragraph 1 should be pursued.

Assessing those arguments

- 14 To address this issue for this meeting, AASB and NZICA staff referred to the *Process for Modifying IFRSs for PBE/NFP* (the *Process*). The *Process* is written using IFRSs as a starting point, rather than IPSASs or EDs based on IPSASs. Therefore, in considering whether to modify the scope of ED 180/ED 118 (in developing a joint Standard on Income from Non-Exchange Transactions) to exclude obligations arising from non-exchange transactions, staff turned around the question and assessed whether a modification of the IFRS on Revenue is warranted (under the *Process*) for these obligations.
- 15 The *Process* says “The purpose of modifying IFRSs for PBE/NFP is to reflect differences between the PBE/NFP and for-profit sectors, including differences in user information needs, that warrant a different accounting treatment or guidance for public benefit and not-for-profit entities” (paragraph 3).

Are there any issues that might warrant modifying an IFRS for PBEs/NFPs?

- 16 The *Process* requires consideration of whether there are any issues that might warrant modifying an IFRS for PBEs/NFPs. In relation to that assessment, paragraph 12 of the *Process* says “In some cases, the context or increased or reduced prevalence of a transaction or event for PBE/NFP, as compared with for-profit entities, may require modifications to the relevant IFRS to ensure that user needs are met while considering the balance between costs and benefits.”
- 17 AASB and NZICA staff observe that non-exchange transactions involving promises to provide goods or services have the following features that seem to occur more frequently to PBEs/NFPs than to for-profit entities:
- (a) transferors ‘purchase’ goods or services on behalf of third party beneficiaries, such as members of the community. Consequently:

- (i) it may be unclear whether, or to what extent, a transferor derives benefits from the stipulated provision of goods or services (see paragraph 42 of Agenda Paper B4.4);
 - (ii) the degree of specificity of a right to receive goods or services may vary considerably, sometimes calling into question whether the right is sufficiently specific to qualify as a performance obligation. For example, due to their ‘remoteness’ from third party beneficiaries, donors to a charity may consider that the charity is better placed than them to assess the needs of those beneficiaries, particularly as they are providing resources in concert with other donors. Consequently, they may make donations that specify the goods or services to be provided, and/or the nature or location of the beneficiaries, but also provide considerable discretion to the charity to redirect the donated assets to other charitable purposes or beneficiaries (see paragraphs 65 – 71 of Agenda Paper B4.4); and
- (b) the mechanisms used by transferors to enforce PBE/NFP promises to provide goods or services may differ from those used in respect of promises made by for-profit entities. For example, they may not need to resort to court action to enforce promises that the transferee fails to honour (see paragraphs 94 – 122 of Agenda Paper B4.4).

18 As indicated in Agenda Paper B4.4, AASB and NZICA staff think that the differences described in paragraph 17 could be accommodated while generally applying the IASB-FASB performance obligations approach to non-exchange transactions involving transfers of assets to PBEs/NFPs. However, staff consider that, if this approach were to be adopted by the AASB and FRSB, additional guidance would be necessary to clarify how PBEs/NFPs should apply that basis of identifying performance obligations. In particular, AASB and NZICA staff think additional guidance would be needed to clarify:

- (a) which entity or entities should be regarded as the ‘customer(s)’ when it is unclear whether, or to what extent, a transferor derives benefits from the stipulated provision of goods or services;

- (b) how specific an enforceable right to receive goods or services must be in order to qualify as a liability; and
 - (c) the meaning of enforceability in relation to an enforceable promise to transfer a good or service to a ‘customer’ (the IASB-FASB ED identifies such a promise as an essential feature of a performance obligation).
- 19 In addition, AASB and NZICA staff think the IASB-FASB ED on Revenue’s criteria for identifying separate performance obligations seem inappropriate and/or unworkable for PBEs/NFPs. This is because those criteria relate to sales transactions and profit margins. Specifically, the IASB-FASB ED says, if an entity promises to transfer more than one good or service, it accounts for each promised good or service as a separate performance obligation only if it is distinct. It says a good or service, or a bundle of goods or services, is distinct if either:
- (a) the entity, or another entity, sells an identical or similar good or service separately; or
 - (b) the entity could sell the good or service separately because it both has a distinct function and a distinct profit margin.
- 20 Therefore, AASB and NZICA staff think the proposed criteria for identifying separate performance obligations should not be required for PBEs/NFPs in accounting for income from non-exchange transactions.
- 21 The staff conclusions in paragraphs 18 and 20 are subject to the consideration below.

Are the identified issues sufficiently significant to warrant a modification to an IFRS for PBEs/NFPs?

- 22 The AASB/FRSB *Process* requires that, once an issue is identified as potentially warranting a modification of an IFRS for PBEs/NFPs, the issue’s significance needs to be assessed before reaching an overall conclusion that a modification should be made.
- 23 AASB and NZICA staff think the issues noted in paragraph 17 are pervasive, and affect one of the most important sources of income for PBEs/NFPs. Therefore, the

staff think those issues pass the ‘significance’ test for modifying an IFRS. In addition:

- (a) the staff are not aware of any inconsistencies within IFRSs as modified for PBEs/NFPs that the modifications mentioned in paragraphs 18 and 20 would create; and
- (b) the staff think the likely costs of the modifications would not exceed the likely benefits. Whilst all modifications to IFRSs impose costs, the modifications mentioned in paragraphs 18 and 20 should reduce costs to preparers by clarifying how to apply a performance obligations approach in a PBE/NFP context and by exempting PBEs/NFPs from potentially unworkable unit-of-account distinctions based on (among other things) distinct profit margins.

24 Based on the considerations above, including applying the AASB/FRSB *Process*, AASB and NZICA staff think that, if the Boards decide to adopt a performance obligations approach based on the IASB-FASB ED on Revenue (if adopted as an IFRS), the modifications in paragraphs 18 and 20 should be made to that approach.

Determining a different treatment for PBEs/NFPs

25 If Board members agree that the IFRS on Revenue should be modified, the *Process* would be applied to determine the nature of the modifications.

26 Paragraph 27 of the *Process* says that, when the AASB and FRSB consider which alternative treatment (to that in an IFRS) would be appropriate, they “would firstly have regard to their respective conceptual frameworks”. In this instance, the AASB and NZICA staff analysis in Agenda Paper B4.4 makes a limited departure from that approach by peeking ahead to the draft Conceptual Framework guidance on liabilities developed by the IASB and FASB.

27 The *Process* says that, in addition to having regard to their conceptual frameworks, the AASB and FRSB would consider other authoritative material such as a public sector specific standard issued by the IPSASB. AASB and NZICA staff note that the AASB and FRSB have considered the treatment in IPSAS 23 *Revenue from Non-*

Exchange Transactions (Taxes and Transfers) and concluded that, in an important respect, its guidance on identifying liabilities is inappropriate.

28 AASB and NZICA staff consider that using the IASB-FASB performance obligations approach to identifying liabilities arising from non-exchange transactions (supplemented by Conceptual Framework guidance on liabilities being developed by the IASB and FASB), and modifying it in the manner mentioned in paragraphs 18 and 20 to address PBE/NFP issues, is one option that would be consistent with the *Process*.

29 These modifications could be made in the Standard incorporating the IFRS on Revenue, or by including modified IFRS text in the joint Standard on Income from Non-Exchange Transactions. The choice between those two approaches is not addressed in the agenda papers for this Board meeting.

If Domestic Guidance on Income from Non-Exchange Transactions³ Applies to Obligations, Should the IASB-FASB Performance Obligations Approach Generally Be Used?

Concerns with applying the IASB-FASB Performance Obligations approach (with appropriate PBE/NFP modifications) to identifying liabilities arising from non-exchange transactions

Strategic concerns

30 The main strategic issue that might be of concern to Board members is that the approach to performance obligations discussed in Agenda Paper B4.4 is based on the tentative views of the IASB and FASB developed in those Boards' projects on Revenue from Contracts with Customers and the Conceptual Framework. The risk is that those Boards might change their views on issues affecting that approach. If that happened, the AASB and FRSB might change the approach they take to income from non-exchange transactions (either after obtaining constituents' feedback on a proposed Standard or, worse, after issuing a joint Standard on Income from Non-Exchange Transactions). A related risk is that the AASB and FRSB could waste

³ Whether contained in a modification to the Standard incorporating the IFRS on Revenue or the joint Standard on Income from Non-Exchange Transactions.

Board and staff time adapting to changes in IASB-FASB thinking even if the deliberations of the IASB and FASB were finalised before the AASB and FRSB issued a successor Exposure Draft to ED 180/ED 118.

- 31 Underlining the concern in paragraph 30 is that the AASB and FRSB propose making submissions on the IASB-FASB ED on Revenue that express significant reservations with that ED's proposals.
- 32 A separate strategic concern arises from the fact that the IASB-FASB ED on Revenue was not written with PBEs/NFPs in mind. As noted above, AASB and NZICA staff think additional guidance to that in the IASB-FASB ED on Revenue would be needed in relation to the matters noted in paragraph 18. Providing such guidance involves the risk of inadvertently departing from the principles developed by the IASB and FASB. And, in view of the similarities between the draft guidance developed on performance obligations of PBEs/NFPs and the guidance on performance obligations in the IASB-FASB ED on Revenue, additional guidance developed for PBEs/NFPs might not be confined in application to PBEs/NFPs. In other words, the domestic guidance might be regarded as guidance on how for-profit entities should apply the IASB-FASB proposals (and later IFRS) on Revenue from Contracts with Customers. Generally, the Boards minimise that risk by adding PBE/NFP guidance in domestic Standards that incorporate IFRSs only where that guidance is essential.

Reasons for applying the IASB-FASB Performance Obligations approach to identifying liabilities arising from non-exchange transactions

- 33 In assessing the concerns set out in paragraphs 30 – 32, it is useful to reflect on the reasons for exploring (but adapting) the IASB-FASB performance obligations approach to identify liabilities arising from non-exchange transactions.
- 34 In considering the submissions on ED 180/ED 118, the Boards decided that the concept of a liability underpinning that ED's proposals is too narrow. Specifically, the Boards decided to explore an approach in which a performance obligation is sufficient for a liability to exist, regardless of whether it is accompanied by a return obligation. The Boards also decided to explore the draft IASB-FASB guidance on identifying performance obligations, partly because of the desirability of basing

treatments of IFRSs except when there are PBE/NFP reasons to depart, and partly because of the efficiencies hoped for by utilising the IASB's and FASB's work.

- 35 AASB and NZICA staff consider that using the IASB's and FASB's draft Conceptual Framework guidance on liabilities, where the guidance in the IASB-FASB ED on Revenue is considered incomplete, is appropriate. This is because staff consider it would be inappropriate to apply a notion of liabilities in a Standard that conflicts with the Conceptual Framework guidance on liabilities.
- 36 In considering the risks described in paragraph 30, it should be borne in mind that this joint project is a high priority of the AASB and FRSB, and the current Standards (or lack thereof) in Australia and New Zealand have been strongly criticised by the Boards' constituents. The high priority given to this project reflects the Boards' agreement with that criticism. There is a strong case for arguing that the Boards cannot wait until the IASB finalises its projects on Revenue from Contracts with Customers, and Conceptual Framework.
- 37 In addition, in relation to the risks described in paragraph 30, AASB and NZICA staff observe that, once the AASB and FRSB complete their deliberations on the comments received on ED 180/ED 118, they may conclude that a further exposure draft is necessary. During the time it would take to develop and expose a further ED, and consider the comments received thereon, the deliberations of the IASB and FASB may well be finalised.
- 38 Staff consider that the risk of providing guidance that inadvertently departs from the principles developed by the IASB and FASB, as noted in paragraph 32, is unavoidable if the performance obligations approach is to be understandable for PBEs/NFPs. The other risk noted in paragraph 32, that domestic guidance might be regarded as guidance on how for-profit entities should apply the IASB-FASB proposals (and later IFRS), can be minimised by providing all PBE/NFP guidance on performance obligations arising from non-exchange transactions in the Standard on Income from Non-Exchange Transactions (rather than as modification in the domestic Standards that incorporate the IFRS on Revenue). As mentioned in paragraph 29, the location of that guidance is not an issue raised for deliberation at this Board meeting.

Concerns arising from Agenda Paper B4.4

- 39 Aspects of the IASB-FASB performance obligations approach arising from Agenda Paper B4.4 that may be of concern to Board members are set out below, with the numbers of the relevant paragraphs of that agenda paper noted in parentheses:
- (a) AASB and NZICA staff think the guidance in the IASB-FASB ED *Revenue from Contracts with Customers* needs to be supplemented with draft Conceptual Framework guidance on liabilities. That involves the risk of misinterpreting how the IASB and FASB would apply that conceptual guidance to liabilities arising from contracts with customers;
 - (b) AASB and NZICA staff recommend treating the transferor in a non-exchange transaction as the customer even if it is unclear what, if any, benefits the transferor derives from the stipulated provision of goods or services (paragraph 42);
 - (c) When more than one transferor exists and, therefore, potentially more than one customer exists, in respect of a promise to provide goods or services, it may be unclear whether the transferee entity's promises to provide goods or services are enforceable against it. AASB and NZICA staff consider that, if multiple customers exist in respect of a transfer, and it is unclear whether the entity's promises to provide stipulated goods or services are enforceable against it, it might be appropriate to assume that they are (paragraphs 45 – 48);
 - (d) the IASB-FASB ED on Revenue does not clarify how specific a customer's identifiable right to receive goods or services must be in order to qualify as a performance obligation (paragraphs 57 – 58). Two views regarding the necessary specificity of a promise are discussed in Agenda Paper B4.4—it is possible that any conclusion reached might be inconsistent with how the IASB and FASB meant for their guidance to be interpreted;
 - (e) as noted above, because it is not uncommon for the identity of the transferor and beneficiaries to differ in respect of non-exchange transactions giving rise to performance obligations, PBE/NFP-specific guidance may be needed on when control of goods or services passes to a customer (paragraph 80);

- (f) in applying the IASB-FASB guidance on performance obligations to donations to charities, it may be difficult to identify when performance obligations result from donations, particularly because the outputs of charities may be quite broad (paragraph 69);
- (g) the meaning of an ‘enforceable promise’ under the draft IASB-FASB Conceptual Framework guidance on liabilities is quite restrictive. Therefore, many specific promises to provide goods or services in return for receiving assets in a non-exchange transaction might not qualify as ‘performance obligations’ (liabilities) [paragraphs 101 – 122]. Thus, the range of liabilities that would be identified from non-exchange transactions might not be much broader than the range identified under ED 180/ED 118. Thus, applying a performance obligations approach—if the Boards agree with the staff’s interpretation of that approach—might not overcome the Boards’ concern that the concept of liabilities in ED 180/ED 118 is too narrow; and
- (h) as noted above, AASB and NZICA staff think the IASB-FASB ED on Revenue’s criteria for identifying separate performance obligations are inappropriate for PBEs/NFPs. Therefore, they propose determining the ‘unit of account’ for performance obligations on the basis of the promised goods or services and the periods in which they are provided (paragraphs 124 – 125). This gives rise to the risk that performance obligations arising from non-exchange transactions would be identified at an excessively detailed level.

The views of AASB and NZICA staff on those concerns are set out below in paragraphs 41 – 47.

- 40 In addition, presently it is unclear how to measure a liability composed of both a performance obligation and a return obligation (see paragraphs 137 – 138 of Agenda Paper B4.4). Whether an approach in which performance obligations are identified separately from other obligations (such as return obligations) is workable from a measurement perspective would need to be assessed when the Boards consider the comments on the measurement proposals in ED 180/ED 118.

Staff views on concerns arising from Agenda Paper B4.4

- 41 In relation to the risk that draft Conceptual Framework guidance on liabilities might be applied differently from how the IASB and FASB would apply it to revenue recognition (raised in paragraph 39(a)), AASB and NZICA staff note that this risk arises whenever an IFRS is concluded to warrant modification for PBEs/NFPs. It seems reasonable to presume that, if the IASB and FASB were to provide additional guidance on issues, that guidance would be consistent with their Conceptual Framework. Therefore, staff do not consider this risk is a sufficient concern not to apply the IASB-FASB performance obligations approach supplemented with draft Conceptual Framework guidance on liabilities.
- 42 AASB and NZICA staff consider that the potential concerns noted in paragraphs 39(b) – 39(e) are manageable, based on the discussion of them in Agenda Paper B4.4. AASB and NZICA staff agree there is a risk that any conclusion on the necessary specificity of a promise to provide goods or services (for that promise to qualify as a liability) might be inconsistent with how the IASB and FASB meant for their guidance to be interpreted (raised in paragraph 39(d)). Such a risk seems unavoidable if the AASB and FRSB agree that the guidance in the IASB-FASB ED on Revenue is inadequate in the context of non-exchange transactions of PBEs/NFPs and needs to be supplemented with domestic guidance.
- 43 Staff agree with the concern noted in paragraph 39(f) that it may be difficult to identify when performance obligations result from donations. In various instances, it may be debatable whether a charity’s promises to provide goods or services are sufficiently specific for a liability to exist under the notions discussed in Agenda Paper B4.4, particularly because the outputs of charities may be quite broad. This is a practical weakness of the performance obligations approach. However, arguably, any approach to liability identification in respect of donations to charities would be difficult to apply if that approach is consistent with the *Framework* definition of a liability.
- 44 In relation to the concern in paragraph 39(g) that the meaning of an ‘enforceable promise’ under the draft IASB-FASB Conceptual Framework guidance on liabilities is quite restrictive, AASB and NZICA staff note that ED 180/ED 118 and IPSAS 23

give a similar meaning to enforceability. The draft IASB-FASB Conceptual Framework guidance says promises must be enforceable by legal or equivalent means (see paragraph 89 of Agenda Paper B4.4). ED 180/ED 118 and IPSAS 23 say: “Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard.”⁴ ED 180/ED 118 and IPSAS 23 mention a directive from a government minister or other authority as an example of an administrative process.⁵

- 45 Therefore, changing from the liability identification criteria in ED 180/ED 118 to an approach based on the draft IASB-FASB Conceptual Framework guidance does not create this issue. If Board members wish to broaden the meaning of an ‘enforceable promise’, or set aside enforceability as an essential feature of a liability, they would adopt a notion of a liability that neither the IASB nor the IPSASB has in mind.
- 46 In relation to concerns that it is difficult to identify when liabilities of PBEs/NFPs arise from non-exchange transactions under a modified IASB-FASB performance obligations approach, staff observe that difficulties with liability identification under these transactions are pervasive. It is not apparent that other approaches to liability identification – as opposed to deferral and matching approaches – can avoid these practical difficulties.
- 47 In relation to the risk that, without using the Revenue ED’s criteria for identifying separate performance obligations, performance obligations arising from non-exchange transactions might be identified at an excessively detailed level (see paragraph 39(h)), AASB and NZICA staff think the application of materiality should place natural limits on the unit of account chosen by practitioners. Staff think this risk should not be a major consideration in the development of principles-based Standards.

Questions for Board members

- Q1 Do you agree that it would be inappropriate to account for obligations arising from non-exchange transactions under the Revenue Standard without any modifications for PBEs/NFPs?

⁴ ED 180/ED 118, paragraph 17; IPSAS 23, paragraph 16.

- Q2 Do you agree that if the Boards decide to use the guidance in a forthcoming IFRS on Revenue, the guidance in that IFRS should be modified for PBEs/NFPs to:
- (a) provide the additional guidance described in paragraph 18; and
 - (b) exclude the criteria relating to sales transactions and profit margins used for identifying separate performance obligations ?
- Q3 Having regard to the discussion above (including in respect of strategic concerns) and in Agenda Paper B4.4, do you think that the principles and related guidance on liabilities developed so far by the IASB and FASB in their Revenue and Conceptual Framework projects would be appropriate for accounting by PBEs/NFPs for performance obligations arising from non-exchange transactions? In this regard, are those principles and guidance:
- (a) conceptually appropriate for non-exchange transactions?
 - (b) workable for non-exchange transactions?
- Q4 If your answer to Question 3 is no, what alternative approach should be pursued? For example, would you wish to revert to the proposals in ED 180/ED 118 for identifying when a liability arises from a non-exchange transaction?
- Q5 If your answer to Question 3 is yes, do you think that an ED incorporating that guidance (with appropriate PBE/NFP modifications) should be developed without waiting for the completion of the related IASB projects?

⁵ ED 180/ED 118, paragraph 20; IPSAS 23, paragraph 19.