



**UNSW**  
AUSTRALIA

11th August 2015

Australian Accounting Standards Board  
Level 7,  
600 Bourke Street,  
Melbourne VIC 3000

Dear Sir / Madam,

**Re: ED 260 - Income of Not-for-Profit Entities – Comment Letter**

Having recently attended the Roundtable event on ED 260 Income of Not-for-Profit Entities, UNSW would like to make a formal submission to the AASB regarding the current Exposure Draft.

I have outlined below our thoughts on a number of key sections of the Exposure Draft and provided examples of how the implementation of this Exposure Draft could impact the University.

**Enforceability**

In principle we agree with the concept that enforceability is essential for a performance obligation to arise, however we strongly suggest that more clarity needs to be provided how enforceability is defined.

**Legal definition of enforceability**

We have held discussions with our in-house legal department and they have noted that all agreements that are in the form of a 'gift acknowledgement'/donation are non-binding agreements and are not enforceable legally. Each agreement that is in the form of a 'gift acknowledgement' has a standard set of 'Gift Provisions' attached which deem that these agreements are not legally enforceable.

We would encourage increased clarification over whether this legal definition of enforceability can be applied to AASB 15. By applying this concept we believe that the treatment of these agreements in AASB 10XX (rather than AASB 15) would be simpler and release a significant amount of the potential administrative burden when applying ED 260.

### Administrative burden

Currently we have many thousands of active donate and grant funding projects that are in the form of a 'gift acknowledgement'. If we are required to apply (or assess) AASB 15 to each of these projects/agreements the administration burden would be extremely time consuming and expensive. We believe that the additional 'benefits' to the readers of our Financial Statements would not outweigh the internal cost of implementing AASB 15 to these types of agreements.

### Liability under AASB 10XX

Another area that we would request clarification is how we identify the liability in AASB 10XX? Does this include constructive obligations as defined in AASB 137? We would strongly argue that if the agreement has no legal obligation (and not legally enforceable) then there would be no obligation under AASB 137. We believe that more clarity needs to be given to how to account for agreements under AASB 10XX.

### Sufficiently Specific Promise

We believe that there needs to be increased clarity around the concept of 'sufficiently specific'. We suggest that it would be beneficial if clearer definitions were provided along with multiple practical examples of scenarios of agreements that are deemed to be sufficiently specific.

#### What constitutes a sufficiently specific promise?

We have reviewed a sample of our research funding agreements and we are having difficulty in determining what performance obligations are considered to be sufficiently specific and how that will impact our revenue recognition. We believe that there are situations when sufficiently specific performance obligations will exist, even though these may not be implicitly disclosed in the agreement.

#### UNSW proposal – 'substance over form argument'

Although many research funding agreements require regular progress reporting (both financial and non-financial) we do not believe that these should always be considered sufficiently specific performance obligations used to trigger recognition of revenue. Instead we believe that other types of revenue recognition should be considered, such as straight-line or matching.

For the majority of our research funding agreements we have an implied obligation to use the funds provided over a specified period of time, regardless of how the funds are disbursed to us during the agreement. Consequently, we argue that the 'substance' of these agreements is that a consistent effort is applied throughout the whole term of the agreement to deliver a final product (research results/findings).

We seek your clarification as to whether this substance over form concept could be applied under ED 260, and what would be the revenue recognition implications. For your benefit we have included an example below.

### Example scenario – Sufficiently Specific Performance Obligations

Key terms of the agreement are as follows:

- UNSW has entered into a research funding agreement where a third party agrees to provide funding of \$6,000,000 (equally over a period of six years) for research.
- The research funding will be payable yearly in advance over the life of the project.
- The University is required to submit bi-annually a short narrative progress report on technical activity and details of expenditure.
- Any funding which remains unspent at the end of the financial year shall be carried forward for use in the following financial year.

### Agreement Details

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Revenue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Expense	(500,000)	(500,000)	(500,000)	(1,000,000)	(1,500,000)	(2,000,000)
Balance	500,000	500,000	500,000	0	(500,000)	(1,000,000)
Written Report Submitted	✗	✓	✗	✓	✗	✓
Effort to Complete Project	17%	17%	17%	17%	17%	17%

### Different Revenue Recognition Methods

1. Straight-line	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
2. Matching	500,000	500,000	500,000	1,000,000	1,500,000	2,000,000
3. Written Performance Obligations	0	2,000,000	0	2,000,000	0	2,000,000

Under our substance over form argument we are of the belief that the sufficiently specific performance obligations are met equally throughout the life of the agreement, rather than each time a written report is submitted (every two years).

Clarification is requested on what the AASB's view is on this above agreement. For simplicity and to reduce possible administrative burden UNSW's preference is to recognise revenue by adopting one of the below methods:

- Straight-line – this would be simple to administer and takes into account the implied obligation to use the funds provided over the period of the agreement.
- Matching – recognition of revenue to match all expenses relating to the project.

## **Measuring non-financial assets at fair value on initial recognition**

UNSW agree in principle with this new interpretation; however we question whether the benefit that this information would provide users of the financial statements would outweigh the costs of implementation.

## **Recognition of Volunteer Services as Income**

UNSW believes that recognition of volunteer services as income (at fair value) should be optional. From our point of view a requirement to recognise all volunteer services would be an extremely costly administrative burden. Due to the nature of the University there are a significant amount of individuals who volunteer their time. We feel that it would be very difficult (and costly) to create a process to ensure we capture a complete listing of all individuals providing volunteer services.

We also argue whether this would provide any substantive benefits to the users of our financial statements. We have never been requested to provide an estimate of this information from our users in prior years.

## **Transition Requirements**

UNSW strongly disagrees with the proposed lack of transition relief and believe that some relief should be provided. We believe that it would be extremely difficult to establish, up to 10 years after agreements were signed, whether the research funding should have been deferred or not.

If no transition relief was available we believe that the University would be adversely affected by the following:

- i. Huge administration burden. It is estimated that UNSW has many thousands of active research, donate and grant funding projects of different sizes in existence at any one time that may last for a period of up to 10 years. To review all of these agreements and apply a new accounting standard would be extremely costly and time consuming.

## **Effective Date**

UNSW believes that the implementation of ED 260 will require a significant amount of time to implement. We agree with the proposals in ED 263 noting that AASB 15 should be effective for annual reporting periods beginning on or after 1 January 2018. We also believe that AASB 10XX should have the same effective date.

We look forward to participating in continued discussions during the implementation of AASB 15 and AASB 10XX. Please feel free to contact myself if you have any questions or would like to clarify any of our comments above.

We look forward to working with you on this matter.

Yours faithfully,

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