



<b>Project:</b>	<b>AASB 15 – Research Grant Examples</b>	<b>Meeting:</b>	AASB November 2019 (M173)
<b>Topic:</b>	<b>Feedback from Fatal-Flaw Review Process</b>	<b>Agenda Item:</b>	12.0
		<b>Date of Agenda Paper:</b>	13 November 2019
<b>Contact(s):</b>	Kathy Xu kxu@asb.gov.au 03 9617 7631  Clark Anstis canstis@asb.gov.au 03 9617 7616	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Fatal-Flaw Review Draft of Amending Standard

## Objective of this agenda item

1. The objective of this agenda item is for the Board members to:
  - consider the submissions received on the Fatal-Flaw Review Draft of amendments to the research-grant illustrative examples accompanying AASB 15; and
  - vote on the ballot draft of *AASB 2019-X Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities*.

## Reason for bringing this paper to the Board

2. At the September 2019 Board meeting, the Board approved the proposed amendments to Australian Illustrative Examples accompanying AASB 15. The Fatal-Flaw Review (FFR) draft was subsequently exposed in October and open for comment for 30 days, with the comment period ending on 8 November 2019.
3. Eight stakeholders submitted comment letters (refer to the attached Agenda Items 12.2 and 12.3). The submissions highlighted significant challenges that the sector is facing in implementing the revenue and income Standards (AASB 15 and AASB 1058) in accounting for government-funded research grants.
4. In response to stakeholders' feedback, staff recommend the Board to:
  - approve the amendments proposed in the Fatal-Flaw Review draft;
  - include an additional illustrative example (Example 4D) to AASB 15 to illustrate some of the key contract features that individually or in combination with other features may assist the sector with implementation;
  - defer the effective date of both AASB 15 and AASB 1058 from 1 January 2019 to 1 July 2019 for not-for-profit entities; and

- consider other actions necessary (eg further consultation, webinar to provide education).

## Attachments

- 12.1 Ballot Draft of AASB 2019-X *Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities*
- 12.2 Submissions on the Fatal-Flaw Review Draft of Amendments to Australian Illustrative Examples for NFP Entities accompanying AASB 15 – Nexia, AAMRI and ACAG (no. 1)
- 12.3 Further submissions on the Fatal-Flaw Review Draft – Monash University, RMIT University, Deakin University, The University of Melbourne, ShineWing and ACAG (no. 2)

## Background

5. The Fatal-Flaw Review version was issued on 8 October 2019 and open for comment until 8 November 2019. Staff received nine comment letters from eight constituents – ACAG provided a second letter addressing a different matter in the Staff FAQs. Three of the submissions were received in time for the first mail-out of agenda papers for the Board meeting (refer to agenda item 12.2) and the remaining submissions were received subsequently (refer to agenda item 12.3).

## Staff analysis and recommendations

6. Respondents comprise four universities, two accounting firms, one medical research institute association and one body representing Auditors-General. Three respondents (two universities and one accounting firm) submitted letters endorsing the submission from Monash University without detailed comments.
7. In response to the stakeholder’s feedback that the Illustrative Examples do not reflect common features of most research agreements and hence are not helpful, staff propose to include an additional example adapted from Scenario 2A of the Staff FAQs<sup>1</sup>, illustrating some of the key contract features that, individually or in combination with other features could help the sector in practice (refer to the Ballot Draft in agenda item 12.1). For example:
- a “transfer of benefit” can take the form of “making available de-identified research data” (not just “publishing research findings”), regardless of whether the donor or authorised third parties actually access the data;
  - in the absence of an explicit promise to publish research findings, an implied promise with past publication practices can create a valid expectation between the parties; and
  - revenue recognised at multiple points in time (eg at least annually) could result in an accounting outcome similar to that of revenue recognition overtime.
8. In response to some stakeholders’ request for the AASB to consider delaying the introduction of AASB 15 for the research sector until the significant divergence in opinion as to the application of the requirements has been addressed, staff recommend deferring the effective date of both AASB 15 and AASB 1058 from periods beginning on or after 1 January 2019 to periods beginning on or after 1 July 2019 for not-for-profit entities (refer to the Ballot Draft in agenda item 12.1). Early application would continue to be permitted, so that no entity would

---

1 Scenario 2A would therefore be removed from the Staff FAQs.

be required to revert to previous requirements if it has already applied AASB 15 and AASB 1058.

9. This limited-period deferral would not change the application of the Standards for all not-for-profit entities that have the typical July-June financial year. Those with calendar financial years would not have to apply the Standards immediately to the 2019 calendar year, giving them additional lead time to address the implementation of the Standards.
10. Deferring AASB 15 and AASB 1058 adds considerable text to the amending Standard. However, this is based on the text set out in AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* (December 2016), as AASB 15 (and its consequential amendments) has been deferred previously.
11. An alternative approach would be to explicitly defer the application of AASB 15 and of AASB 1058 to research grants that did not involve the transfer of IP or the granting of licences to donors. The difficulty with this approach is that it would not be possible to satisfactorily define ‘research grants’ in order to limit the scope of the deferral.
12. In response to stakeholders’ comments that:
  - the “benefit” of the research activities is not just the knowledge to be shared;
  - reference to paragraph B4 (the reperformance test) should always be made to make an appropriate assessment of the application of paragraph 35(a); and
  - a possible solution could include granting an exception for ‘pure research’ grants such as ARC and NHMRC similar to the exception in AASB 1058 for capital grants;

staff propose to include additional questions and answers in the Staff FAQs to provide further clarification and guidance.