



<b>Project:</b>	<b>Revenue from Licences Issued by NFP Public Sector Licensors</b>	<b>Meeting:</b>	M167 (Sept 2018)
<b>Topic:</b>	<b>Cover Memo – Pre-ballot Draft</b>	<b>Agenda Item:</b>	3.0
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Pre-Ballot Draft

## Objective of this paper

- 1 The objective of this session is for the Board to review the Pre-Ballot Draft of AASB 2018-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensor*, and decide on the steps to finalise the Standard.

## Attachments

- Agenda Paper 3.1 [Pre-Ballot Draft - Clean] AASB 2018-X
- Agenda Paper 3.2 [Pre-Ballot Draft – Marked-up from ED 283] AASB 2018-X

## Structure of this paper

- 2 This paper is set out as follows:
  - (a) remaining issue for Board decision: variable consideration (paragraphs 3-8);
  - (b) about the Pre-Ballot Draft (paragraphs 9-11);
  - (c) steps for the Board to finalise the project (paragraphs 12-15);
  - (d) communications plan for Standard (paragraphs 16-17); and
  - (e) full log of Board’s response to comments made on ED 283 (Appendix A).

## Remaining issue – variable consideration

- 3 At the June 2018 Board meeting, the Board tentatively decided to allow NFP public sector licensors to apply the less onerous guidance specified in paragraphs B63-B63B of AASB 15 to account for variable consideration<sup>1</sup> arising from non-IP licences, rather than the general principles of AASB 15 (as was proposed in ED 283), subject to further Staff analysis on whether this would be justified in accordance with *The AASB's Not-for-Profit Entity Standard-Setting Framework*<sup>2</sup>.
- 4 In undertaking further research, Staff observed that difficulties in estimating variable consideration was only brought to the Board's attention in the context of long-term licences, such as casino licences. However, as noted in August 2018<sup>3</sup>, recent Staff analysis has shown that the quantitative magnitude of this type of licence is not of significant materiality.
- 5 Staff also conducted further outreach with:
  - (a) two credit rating agencies (users), who confirmed that the variable component of these types of licences is not material to their decision-making;
  - (b) representatives of the Heads of Treasuries Accounting and Reporting Advisory Committee (preparers), who considered the difficult in estimating variable consideration would not be particularly onerous (noting there are not many licences issued with a variable component); and
  - (c) representatives of the Australasian Council of Auditors-General (auditors, who were the most concerned party with estimating variable consideration), who maintained concern in estimating variable consideration due to the long length (40+) years of some licences, such as casino licence. However, it was noted the estimation would not be as difficult for licences with a term of 5 years or less.

## Staff recommendation

- 6 On balance, Staff do not consider it is justifiable (given user needs would be met by applying the general principles of AASB 15), nor sufficiently significant (given the quantitative magnitude) to warrant departure from the Board's policy of transaction neutrality.
- 7 Hence, Staff recommend the Board does not allow NFP public sector licensors to apply the guidance in paragraphs B63-B63B to account for variable consideration.
- 8 ED 283 also proposed an illustrative example demonstrating how a licensor would apply the general requirements in AASB 15 to variable consideration. Given the findings noted above, Staff consider that it would also be inconsistent with the Standard-Setting Framework to include this example (as it would interpret AASB 15, which may have implications if private sector entities attempt to apply the AASB's example by analogy, without a significantly

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<sup>1</sup> See Appendix C of [Agenda Paper 4.1](#) (June 2018) and associated [Action Alert](#)

<sup>2</sup> See [The AASB's Not-for-Profit Entity Standard-Setting Framework](#)

<sup>3</sup> See [Agenda Paper 3.2](#) (August 2018)

justifiable need). Therefore, Staff also recommend removing the variable consideration example from ED 283.

## Question for Board members

**Q1** Do Board members agree with the Staff recommendation to require NFP public sector licensors to apply the general principles of AASB 15 to account for variable consideration of non-IP licences.

**Q2** Do Board members agree with the Staff recommendation to remove the example of applying the example illustrating the accounting for variable consideration?

## Pre-Ballot Draft

- 9 Staff have presented a Pre-Ballot Draft (both clean and marked up<sup>4</sup> from ED 283) for the Board's consideration. Staff note the Pre-Ballot Draft is relatively unchanged from ED 283, with the exception of:
- (a) clarifications to the flow chart;
  - (b) clarifications to the guidance on determining a licence from a tax;
  - (c) addition of a second rebuttable presumption for disaggregating the transaction price between a licence and a tax;
  - (d) further/clarified guidance on identifying performance obligations;
  - (e) revised illustrative examples;
  - (f) various editorial/minor clarifications to improve the quality and clarity of the final Standard; and
  - (g) a revised Basis for Conclusions, which reflects the additional decisions made by the Board between ED 283 and now.
- 10 Staff note that the Pre-Ballot Draft has also been presented upon the assumption that the Board agrees with both of the Staff recommendations related to variable consideration above.
- 11 A full log of comments received on ED 283 and a cross-reference to where the Board has addressed these comments has also been provided for Board's noting, to confirm that all issued raised have been addressed.
- 12 The marked up version also contains three comment boxes to the Board in the Basis for Conclusions for Board noting.

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<sup>4</sup> Please note that Staff have not presented some of the changes made between ED 283 and the Pre-Ballot Draft in mark-up where they were only minor and editorial in nature, particularly in the Basis for Conclusions.

## Steps for finalising the project

- 13 Staff have provided the Board with a Pre-Ballot Draft, however **this does not preclude the Board from voting on the Pre-Ballot Draft as a final Standard.**
- 14 If the Board agrees with the Pre-Ballot Draft, Staff recommend the Board approve it as a final Standard. This would allow the final Standard to be issued by Friday 14 September 2018. Staff recommend this approach as it will allow the Standard to be available as soon as possible for NFP public sector licensors to begin applying it, noting the application date of 1 January 2019.
- 15 Staff request that Board members **notify Staff as soon as possible (ie before the September 2018 Board meeting) of any minor editorial changes** that they believe need to be made before issuing the Standard. This would allow Staff to make changes and present a table read of editorial changes to other Board members at the September 2018 meeting, allowing the Board to still vote on the Standard at this meeting.
- 16 If the Board does not agree with the Pre-Ballot Draft to the extent that it requires re-drafting into a Ballot Draft, Staff recommend that the Board vote on the final Standard out-of-session. This will allow for timelier finalisation of the Standard.

## Communications

- 17 Staff note that the following communications are planned by Staff in relation to the project:
  - (a) news alert on the AASB website;
  - (b) news alert in the *AASB Weekly Update*;
  - (c) targeted notification via email to all respondents to ED 283 and the database of public sector stakeholders; and
  - (d) to offer to present an education session to HoTARAC and ACAG at their upcoming meetings.
- 18 Staff do not consider any further communications are necessary (eg no need for a Staff FAQ, AASB Hot Topics or AASB Extra), given the narrow-scope, low materiality and size of the affected sector.

### Questions for Board members

**Q3** Does the Board agree to approve the Pre-Ballot Draft as a final Standard (subject to any editorials noted by Staff)?

**Q4** If no to Q3, does the Board agree to vote on the final Standard out-of-session?

**Q5** Does the Board agree with the communications planned by Staff?

## Appendix A: Full log of comments and cross reference to changes in Pre-Ballot Draft

- A1 This Appendix presents the Board with a reconciliation of the comments made on ED 283, and where the Board has addressed the comments in the Pre-Ballot Draft of the Standard (see Agenda Paper 3.1/3.2). Staff have also indicated at which meeting the Board discussed the relevant issues, either June 2018 (see [Agenda Paper 4.1](#) and [Action Alert](#)), or August 2018 (see Agenda Paper [3.0](#), [3.1](#) or [3.2](#) and [Action Alert](#)).
- A2 This Appendix is for Board information, and hence Staff have not asked any questions in relation to it.

### LOG OF CHANGES:

**SMC 1 Do you agree to expanding the scope of AASB 15 to include non-contractual licences (ie arising from statutory arrangements) (paragraphs 4, G7-G9)? If not, please provide your reasons.**

SMC 1 Respondents comments	Reference to paragraph of Pre-Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>A. The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S5 – HoTARAC,) agree with the proposal to include non-contractual licences within the scope of AASB 15, with numerous noting that this would enhance consistency in public sector accounting.</p> <p>B. One respondent (S4 – SA and TAS Audit Offices) disagreed that non-IP licences should be dealt with at all in AASB 15, despite noting that the accounting for non-IP licences not captured by AASB 16 Leases should relate to non-contractual, as well as contractual licences. Staff have addressed this concern in SMC 3 (using AASB 15 to account for licences).</p> <p>C. One HoTARAC jurisdiction (but not all) disagreed with this question on the basis that they consider non-contractual licences to be taxes rather than licences within the scope of AASB 15. Staff have addressed this concern in SMC 7 (licence or tax guidance).</p>	<p>Paragraph 4 [Aus5.2], G8-G10.</p> <p>Discussed at June 2018 meeting and decided to make no change to ED.</p>

**SMC 2 Are you aware of any lease arrangements that would arise from statutory arrangements rather than a contract? If so, please provide details of these arrangements and their accounting treatment.**

SMC 2 Respondents comments	Reference to paragraph of Pre-Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>A. The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices,) were not aware of lease arrangements arising from statutory</p> <p>B. One respondent (S5 – HoTARAC) noted that the Port of Melbourne transaction arose from legislation and was classified as an operating lease for GFS purposes.</p>	<p>Not within the scope of the final Standard – Staff have noted for further consideration.</p> <p>Discussed at June 2018.</p>

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**SMC 3(a) Do you agree with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specify that IP licences shall apply the guidance in paragraphs B52-B63B of AASB 15?**

SMC 3(a) Respondents comments	Reference to paragraph of Pre-Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>A. The majority of respondents, S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S5 – HoTARAC (most) agree with SMC3 (a), that IP licences shall apply the guidance in AASB 15 paragraphs B52-B63B.</p> <p>B. One HoTARAC jurisdiction (but not all) disagreed with this question on the basis that they consider licences to be taxes (within the scope of AASB 1058) rather than within the scope of AASB 15. Staff have addressed this concern in SMC 7 (licence or tax guidance).</p>	<p>Paragraph G12.</p> <p>Discussed at June 2018 and decided to make no changes to ED.</p>

**SMC 3(b) Do you agree with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specify that non-IP licences, that are not a lease and are distinct from other goods or services, shall be accounted for as a separate performance obligation under AASB 15? If not, please provide your reasons.**

SMC 3(b) Respondents comments - Category 1: Respondents who agreed	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit offices (Vic, NSW, WA, NT, Qld), S5 – HoTARAC and S6 – AHPRA) agree in principle with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specified that non-IP licences, that are not a lease and are distinct from other goods or services, shall be accounted for as a separate performance obligation under AASB 15. However, numerous respondents (S2 – EY, S3 – Audit offices (Vic, NSW, WA, NT, Qld), S5 – HoTARAC and S6 – AHPRA) raised concern in regard to the outcomes that may come of the guidance, such as some arrangements that are currently recognised over time requiring a change to point in time, and whether the guidance in AASB ED 283 is helpful in respect of identifying genuine performance obligations of public sector licensors.</p> <p>Specifically, points raised are as follows:</p> <p>A. Respondents (S3 – Audit Offices, S5 – HoTARAC, S6 – AHPRA) disagree with paragraph G18, which states that protecting the exclusivity of an arrangement, periodically monitoring whether the terms of the arrangement are being met and upholding the integrity of the licence shall not be considered as separate performance obligations and instead are features of the licensing arrangement. The respondents note that the licence arrangements, including gaming/casino licences, are commercially negotiated contracts, where the licensor and licensee agree to a value exchange for the whole of the licence period. The respondent notes that ongoing commerciality is a fundamental characteristic of the arrangement and that the licensor is required to actively manage/sustain the value of the arrangements beyond just maintaining exclusivity.</p>	<p>Paragraphs G16-G19 clarified to describe principles of AASB 15.</p> <p>BC83-BC95 sets out Board’s rationale for decision to remain with the principles of AASB 15.</p> <p>Discussed at June and August 2018 meetings.</p>

SMC 3(b) Respondents comments - Category 1: Respondents who agreed	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>B. The respondents are of the view that maintaining the commerciality of the arrangements are akin to ongoing maintenance obligations that represent performance obligations in accordance with AASB 15. The actions required by the licensor are ‘active’ and not ‘passive’ – without the active involvement of the State, there is a risk that the commercial value of the arrangement will not be upheld, potentially exposing the licensor to legal action from the licensee. In this respect, the licensor’s activities:</p> <ul style="list-style-type: none"> <li>(i) serve to maintain confidence in the services, systems and operations of the licensee, upon which the commerciality of the arrangement is underpinned; and</li> <li>(ii) if not performed would substantially detract from the commerciality of the arrangement.</li> </ul> <p>C. One respondent (S5 – HoTARAC) notes that without the recognition of the activities that the licensors need to fulfil and the commerciality that this provides, the exposure draft will not provide the clarification on non-IP licences that it is seeking to achieve. The respondent also argues that where these obligations are met, AASB 15 paragraph 35(b) <i>“the entity’s performance creates or enhances an asset [in this instance a licence] that the customer controls as the asset is created or enhanced”</i> is met and that revenue would be recognised over the term of the licence.</p> <p>D. Respondents (S5 – HoTARAC, S6 – AHPRA) have made AASB Staff aware of the following activities that public sector entities must conduct for the licensee:</p> <ul style="list-style-type: none"> <li>(i) ongoing assurance that the licensor provides for the public to engage in fair gambling activities;</li> <li>(i) conducting inspections and compliance activities;</li> <li>(ii) conducting complex investigations for compliance;</li> <li>(iii) ensuring the industry remains free from criminal influence;</li> <li>(iv) ensuring the integrity and reliability of systems;</li> <li>(v) monitoring the financial activities and probity of approved participants in the gaming industry to ensure compliance with regulations and ongoing suitability to hold a licence, permit or approval;</li> <li>(vi) provision of a national public register and the ability for licensees to freely move across jurisdictions to practice within the scope of licence;</li> <li>(vii) ongoing requirement to monitor that compliance restrictions are met;</li> <li>(viii) providing ongoing ‘audit’ services which over a cyclical period randomly audits registrants for compliance with the licence obligation to ensure the protection of the public;</li> <li>(ix) ongoing work to review, amend and update standards for the licencing eligibility; and</li> <li>(x) standing ready to respond to complaints of non-licenced activities</li> </ul>	

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<b>SMC 3(b) Respondents comments - Category 1: Respondents who agreed</b>	<b>Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at</b>
<p>E. One respondent (S5 – HoTARAC) notes that recognising these activities as performance obligations is the current practice for preparers and auditors. This statement appears to be supported given the comments in S3 – Audit Offices (S3 – Audit Offices and S5 – HoTARAC contain the majority of public sector preparers and auditors).</p> <p>F. One respondent (S2 – EY) suggests that the AASB give further consideration to determine, despite the AASB’s current proposals accurately reflecting the principles of AASB 15, whether additional conditions (ie exclusivity and monitoring activities) should be taken into account for some non-IP licences to allow them to recognise revenue over time. The respondent noted reasons for the Board to consider this as follows:</p> <ul style="list-style-type: none"><li>(i) ED 283 would significantly change the accounting treatment as compared to current practice;</li><li>(ii) public sector licensors may consider the accounting treatment as non-reflective of the way they view the significance of the revenue stream from these licences to their business model;</li><li>(iii) the proposals do not reflect the economic substance of revenue from certain licences; and</li><li>(xi) differences in nature and substance of non-IP licences and IP licences.</li></ul>	



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<b>SMC 3(b) Respondents comments - Category 2: Respondents who disagreed</b>	<b>Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at</b>
<p>Three respondents (S4 – Audit Offices (SA &amp; TAS), S5 – HoTARAC (one jurisdiction, but not all) and S7 – ABS) disagreed with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13 which specified that non-IP licences, that are not a lease and are distinct from other goods or services, shall be accounted for as a separate performance obligation under AASB 15. The reasons for their disagreements are as follows:</p> <ul style="list-style-type: none"> <li>A. One respondent (S4 – SA and TAS Audit Offices) disagrees with applying AASB 15 to non-IP licences on the basis that the respondent does not see the issuance of a non-IP licence as a performance obligation, and is of the view that income from the issuance of non-IP licences should be recognised under AASB 1058.</li> <li>B. One jurisdiction at HoTARAC disagrees with expanding the scope of AASB 15. In their opinion, the licences issued by the government are unique in nature and only apply to arrangements underpinned by the coercive power of the state. They are not the same as a voluntary transaction between two independent parties that both benefit from the transaction. They should not be included in AASB 15, but dealt with separately ie via AASB 1058.</li> <li>C. Respondent S7 – ABS, whilst not explicitly disagreeing with SMC 3(b), disagrees with the related accounting treatment for the casino licence in Examples 8 and 9 of ED 283 because the treatment is not aligned to GFS, where this type of arrangement would be considered a tax rather than a licence. Refer to SMC 7 for more details.</li> </ul>	<p>The Board did not change its decision on applying AASB 15. The rationale for applying AASB 15 is set out in paragraph BC41-BC52.</p> <p>Discussed at June 2018 meeting.</p>

**MC 4** In relation to the AASB’s proposal in paragraph 4 and the guidance in paragraphs G19-G23 of this Exposure Draft (‘Recognition exemptions’), to include practical expedients in the Amending Standard to account for revenue from short-term or low-value licences issued by not-for-profit public sector licensors:

- (a) do you agree that this proposal would provide relief to preparers while retaining a faithful representation of a not-for-profit public sector licensor’s financial performance? Please provide your reasons.
- (b) if not, what alternative practical expedient approach (if any) to income recognition would you recommend for not-for-profit public sector licensors? Please provide your reasons.

SMC 4 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>The majority of respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S6 – AHPRA) supported the inclusion of the recognition exemptions, noting that this would reduce the implementation burden without misrepresenting the licensor’s financial performance. However the following comments were noted:</p> <p>A. Respondents (S1 – KPMG, S2 – EY, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S6 – AHPRA) requested that the AASB clarify by way of definitions or other guidance, the intended meaning of ‘short-term’ and ‘low-value’. Some respondents (S1 – KPMG, S3 – Audit Offices, S4 – SA and TAS Audit Offices) acknowledged that paragraphs BC73-BC74 in ED 283 help to interpret short-term licences and the Boards intention to be consistent with AASB 16 <i>Leases</i>, but nonetheless further guidance is preferred. These respondents provided the following comments:</p> <p>a) <i>Short-term licences</i></p> <ul style="list-style-type: none"> <li>(i) Respondent S1 – KPMG recommended clarifying what is meant by short-term licences because references to short-term in Standards vary – AASB 16 and AASB 119 <i>Employee Benefits</i> define short-term to mean 12 months or less (in the case of AASB 119 it is wholly less than), whereas AASB 107 <i>Statement of Cash Flows</i> uses ‘short-term’ referencing a maturity period of three months or less, and AASB 9 <i>Financial Instruments</i> uses the term in the context of classification of a financial instrument that is held for trading, for “short-term profit-taking”;</li> <li>(ii) Respondents S3 – Audit Offices, S6 – AHPRA and QAO (via additional comments to the S3 – Audit Offices’ submission) stated that there are no examples of ‘short-term’ provided in Appendix G to ED 283 and it is unclear what is taken into consideration when determining whether or not a licence is short-term. For example, a driver licence might be issued for one, five or ten years, but it is up to the licensee if, when and for how long the licence is renewed. One respondent (QAO) also noted that It is not clear whether the short-term expedient will apply in situations where the licensee has a choice to renew (say) every year or renew for three years.</li> </ul> <p>b) <i>Low-value licences</i></p> <ul style="list-style-type: none"> <li>(iii) In developing AASB 16, the IASB provided a guideline of low-value meaning an “order of magnitude of US\$5,000 or less”. AASB 16 does not include this prescriptive number in the Standard, but has been included in the IASB’s Basis for Conclusions. Respondents encourages the AASB to follow this approach (S1 – KPMG, S2 – EY);</li> <li>(iv) The AASB should include a reminder around low-value being a concept rather than an assessment of materiality (S1 – KPMG);</li> <li>(v) Examples of ‘types of licences’ rather than a monetary threshold may be more helpful (S3 – Audit Offices);</li> </ul>	<p>Discussed at June 2018 meeting.</p> <p>Appendix A1 added to define short-term and BC77 added for rationale.</p> <p>BC79-BC80 added to provide more clarity.</p>

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SMC 4 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>(vi) The Basis for Conclusions should further explain why a practical expedient for low-value licences is appropriate. This respondent (S4 – SA and TAS Audit Offices) supports this practical expedient because low value licences are expected to be issued often and as such, there would not likely be unfaithful representation from applying the expedients.</p> <p>20 The proposed guidance relies on the licensor assessing the ‘nature of the licence’ for the licence to qualify for the low-value exemption, however does not provide detailed guidance on how to make this qualification (the respondent suggested to see, for example, AASB 16 paragraph B5) (S2 – EY).</p>	

SMC 4 Respondents comments continued	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>B. Some respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices) were concerned that paragraph Aus8.1 as currently proposed in ED 283 may be read to mean that, to be able to apply a practical expedient, a licence must be both short-term and low-value. Therefore these respondents suggested paragraph Aus8.1(a) should be amended to read as follows (refer to strike through and underline):</p> <p>“Aus8.1 A not-for-profit public sector licensor may elect not to apply the requirements in paragraphs 9-90 (and accompanying Application guidance) to:</p> <p>(a) short-term licences; <del>and</del> <u>or</u></p> <p>(b) licences for which the transaction price is of low value.”</p>	<p>BC82 clarifies this and notes Board’s decision not to change drafting to maintain consistency with AASB 16.</p> <p>Discussed at June 2018 meeting.</p>
<p>C. One respondent (S2 – EY) noted that, as currently drafted, the proposed amendments in paragraph Aus8.2 are not clear on whether the exemptions apply only to licences of non-IP, or to all types of public sector licences. The respondent notes that in the case that IP licences are eligible for the exemption, transaction neutrality would not remain.</p>	<p>Paragraph G12 and BC82 now clarify that they are applicable to both IP and non-IP licences of NFP public sector licensors.</p> <p>Discussed at June 2018 meeting.</p>
<p>D. One respondent (S5 – HoTARAC) questions whether the proposed expedients offer any substantive ‘relief’ for preparers. This respondent notes that the proposed expedients are in line with the existing accounting treatment of the majority of licences being issued (of which most will be eligible for the</p>	<p>The Board did not change its decision based on this comment.</p> <p>Discussed at June 2018 meeting.</p>

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<b>SMC 4 Respondents comments continued</b>	<b>Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at</b>
practical expedient). In any case, the respondent noted that the existing treatment provides faithful representation.	
E. One respondent (S5 – HoTARAC) noted that some low value licences have a high volume of transactions, meaning the revenue is material. The respondent questions whether recognising revenue on a single systematic basis could lead to inconsistencies in how material revenue streams are reported.	BC81 added to clarify why the Board was not concerned by this comment.  Discussed at June 2018 meeting.

**SMC 5 In relation to licences issued by not-for-profit public sector licensors that are not intellectual property (IP) licences (ie non-IP licences) that involve sales-based or usage-based commission:**

- (a) do you agree with the AASB’s proposal to use the general guidance in AASB 15 paragraphs 56-57 (‘Constraining estimates of variable consideration’) to determine the transaction price for the licensing arrangement, which in turn would determine the timing of revenue recognition? Please provide your reasons.**
- (b) if not, as an alternative, do you believe the general guidance in AASB 15 should be amended to reflect for non-IP licences, the guidance for sales-based or usage-based royalties set out in paragraph B63 of AASB 15 for IP licences? This guidance may make it easier for licensors to determine the transaction price and timing of revenue recognition of non-IP licensing arrangements involving sales-based or usage-based consideration. However, this would mean that the accounting for non-IP licences by not-for-profit public sector entities would be different from that for other entities (which would not be transaction neutral).**

SMC 5 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>A. Three respondents (S1 – KPMG, S2 – EY, S5 – HoTARAC,) support the use of AASB 15 paragraphs 56-57 to account for licensing arrangement which involve sales-based or usage-based revenue, so that consistency of accounting is maintained across sectors.</p> <p>B. Two respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices) note that practical difficulties would arise for NFP public sector entities applying AASB 15 paragraphs 56-57 to account for licensing arrangement which involve sales-based or usage-based revenue. These respondents support the alternative of applying AASB 15 paragraph B63. Reasons for this include:</p> <ul style="list-style-type: none"> <li>(i) estimating future revenue would be difficult, as it would require consideration of external factors such as economic conditions and tourism (factors that could increase the likelihood or the magnitude of a revenue reversal). Due to this, the respondent does not agree that the fact pattern described in Example 9 of ED 283 would lead to the ability to conclude that a significant reversal would not be highly probable; and</li> <li>(ii) the only performance obligation is assessed as at the point of issuing the licence, which may make it difficult to measure reliably.</li> </ul> <p>Respondent S4 – SA and TAS Audit Offices also noted that even though transaction neutrality would be the preferred outcome, they do not consider it to be relevant due to the inability of the private sector to participate in the same transactions (that is, non-IP licences do not appear to be issued by non-public sector entities).</p> <p>Respondent S3 – Audit Offices suggested that additional guidance would be needed to understand how the licensor accounts for the cost of its obligations under the licence arrangement, if paragraphs 56-57 were to be applied.</p> <p>C. One HoTARAC respondent (but not all) was concerned with this proposal as they were of the view that the ‘variable consideration’ received from the licensee was in fact a completely separate transaction (and represents a tax), and should not be accounted for in conjunction with the licence. See SMC 7 for further discussion on this issue.</p> <p>D. One respondent (S5 – HoTARAC,) supported transaction neutrality but suggested that licence fees and royalties arising from conducting licensed activities are separate revenue transactions, and do not consider the royalties to be contingent consideration.</p>	<p>BC96-BC99 added, subject to Board’s agreement at this meeting, setting out rationale for remaining with the principles of AASB 15.</p> <p>Example of variable consideration removed, as prevalence and magnitude did not appear to warrant example (see BC96-BC99).</p> <p>Discussed at June 2018 meeting, and this meeting (September 2018).</p>

**SMC 6** In relation to non-IP licences issued by not-for-profit public sector licensors, do you have examples of distinct licences issued that involve a non-identified asset or assets of the licensor (ie that are not leases)? Please provide the details of your example. If you do have an example, do you think the specific guidance in paragraphs B52-B63B for IP licences may also be useful to help account for the licence in your example? (Paragraphs G14-G15)

SMC 6 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>A. One respondent (S5 – HoTARAC) requests the AASB clarify whether the “non-identified assets of the licensor (ie that are not leases)” refer to assets that are “controlled” for accounting purposes (ie on balance sheet) or “controlled” but not on balance sheet (eg navigable waters). The respondent provided the following examples of examples of non-IP licences that involve on and off-balance sheet assets of the licensor that are not considered leases:</p> <ul style="list-style-type: none"> <li>(i) mooring fees - private mooring fees permit individuals to moor vessels on navigable waters. Renewed annually, this licence is not a lease of the seabed and there is no guarantee of tenure. The general position of the site is determined (and may be varied) at the discretion of the government agency.</li> <li>(ii) road occupancy licences - required for any activity likely to impact on traffic flow, even if that activity takes place off-road. The government agency directs the use of the area to be occupied.</li> <li>(iii) aquatic licences - required for organised activities on, or in, navigable waters. This may also include the exclusive use of an area of navigable water for the conduct of an aquatic activity. The government agency directs the use of the area to be occupied.</li> </ul> <p>The respondent notes that these examples are of low value and considers that the proposed practical expedients may apply. Nonetheless, the respondent believes paragraphs B52-B63B would apply.</p> <p>B. One respondent (S4 – SA and TAS Audit Offices) provided outsourced maintenance of data for lands titles (which can include a licence to use that data for commercial purposes) as an example of licences that involve the non-identified assets of a licensor. The respondent requests the AASB clarify whether such arrangement is an IP licence in accordance with AASB 15 (where not a service concession arrangement).</p> <p>C. One respondent (S2 – EY) is aware of certain licences issued which allow access to data registries that could contain unidentified assets such as customer relationships, trademarks and brand names</p> <p>D. Three respondents (S2 – EY S3 – Audit Offices, S5 – HoTARAC) disagree with the concept in paragraph G15 that a commercial fishing licence is not distinct from other goods and services. In the respondents’ view, the licensor’s obligation is to grant the licensee the right to perform a commercial activity. It does not promise the licensee to transfer the fish, as the fish is not a commodity for sale and the fee is not refundable if no fish are caught. Staff note that this issue was also raised in informal meetings held with some constituents (ABS and DTF NSW).</p> <p>Some respondents (S5 – HoTARAC, S2 – EY, NSW Treasury, ACAG FRAC), via both formal and informal communications with Staff, indicated that they were unaware of what a ‘take-or-pay’ arrangement was (including the accounting treatment). These respondents requested the Board to clarify this, with one respondent requesting the Board to clarify whether these are in the nature of a tax and should be accounted for under AASB 1058.</p>	<p>BC73 added to address why the Board did not reconsider guidance for these types of licences.</p> <p>Discussed at June 2018 meeting</p>



**SMC 7**            **Do you agree that the features outlined in paragraph G3 to determine a tax from a licence provide sufficient guidance in making this distinction? If not, what other factors may be useful to make the distinction?**

SMC 7 - Category 1: Respondents who disagreed with AASB's tax versus licence outcomes	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>Three respondents (S4 – SA and TAS Audit Offices, S5 – HoTARAC and S7 – ABS) recommend aligning the tax versus licence guidance in G3 more closely with GFS to allow for the harmonisation of the two frameworks. Specifically:</p> <p>A. Respondent S7 – ABS raised concern that the guidance to determine a tax from a licence is inconsistent with the distinction under Australian GFS (AGFS). Under AGFS, a licence may be classified as either taxation revenue or an administration fee, dependent on whether the payment for the licence is clearly out of proportion to the cost of providing the service.</p> <p>For example, based on the information provided in example 8 of ED 283, the ABS would classify the casino licence as a tax because it is a compulsory fee to legally run a casino, and the fee (\$100 million) is out of all proportion to the costs of administration (\$100,000)</p> <p>The ABS pointed out that the distinction between tax and other types of revenue (including revenue for licences) is important in macroeconomic statistics because it impacts on how the transactions are recorded in the National Accounts. Revenue from taxes are recorded in the income account of government. Revenue from the provision of services by government is included as an offset to outlays in the calculation of government final consumption expenditure, which contributes to Gross Domestic Product measured on an expenditure basis.</p> <p>B. Respondents S4 – SA and TAS Audit Offices and S5 – HoTARAC raised concerns with the proposal to allocate the transaction wholly to the promise to grant licence where the arrangement has a dual purpose of granting a licence and imposing a tax. The respondents are especially concerned with the practical consequences when having to account for the variable consideration, noting that it is possible for an arrangement to demonstrate both elements of licensing and taxation.</p> <p>In the case of DTF SA, their casino licensing arrangement consists of two separate arrangements, a licence (via an Approved Licensing Agreement) and a tax (via a Casino duty Agreement). The terms of each agreement are not co-dependent, and whilst linked, are economically separate agreements. They noted in discussions with AASB staff that the licence in this case, which covers exclusivity is considered as one performance obligation and recognised up front when the consideration for the licence is received and the licence is issued. Whereas the consideration received with respect to the casino duty is treated as a tax and recognised over time.</p>	<p>BC25 added to clarify why the Board preferred not to use ABS GFS definition.</p> <p>Discussed at June 2018 meeting.</p>



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SMC 7 - Category 2: Respondents who provided feedback on the AASB's tax versus licence features in paragraph G3 of ED 283	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p><b>AASB Feature (a) – Is the arrangement discretionary rather than compulsory?</b></p> <p>Three respondent (S3 – Audit Offices, S4 – SA and TAS Audit Offices, S2 – EY) requested further clarification of the terms ‘compulsory’ and ‘discretionary’, as, for example, some might consider a driver’s licence is compulsory (on the basis that a licence is required for you to drive legally), whilst others may consider a driver’s licence is discretionary (as no person is compelled to drive). One respondent (S4 – SA and TAS Audit Offices) noted that they reached the same conclusions without considering G3 (a), so suggests that it could be removed altogether.</p>	<p>G3(a) amended to provide further clarification of applying this point.</p> <p>Discussed at June and August 2018 meetings.</p>
<p><b>AASB Feature (b) – What is the primary purpose?</b></p> <p>One respondent (S2 – EY) questions whether this feature is helpful. The respondent considers that ultimately both taxes and licences are established to provide income to the government (although notes this is discussed at BC20).</p>	<p>Board decided not to amend its original decision based on this comment.</p> <p>Discussed at June and August 2018 meetings.</p>
<p><b>AASB Feature (c) – Does the arrangement create direct rights to use or access an asset for a payer, or perform an activity, and, depending on the type of arrangement direct obligations of a payee?</b></p> <p>One respondent (S2 – EY) consider this feature to be helpful in most occasions in making the distinction. However, not all licences may have “direct obligations of a payee”.</p>	<p>Board decided not to amend its original decision based on this comment.</p> <p>Discussed at June 2018 meeting.</p>
<p><b>AASB Feature (d) – Does the arrangement give the payer specific permission that must be obtained prior to performing an activity or using or accessing an asset of the payee that would otherwise be unlawful?</b></p> <p>One respondent (S2 – EY) considers this to be the most relevant feature, but suggests referring to ‘a resource’ rather than ‘an asset’, so that unidentified resources are appropriately recognised.</p>	<p>G3(d) amended to refer to a resource.</p> <p>Discussed at June 2018 meeting</p>
<p><b>AASB Feature (e) – Does the arrangement transfer control of a payee’s underlying asset?</b></p> <p>One respondent (S2 – EY) notes that the relevance of this factor is not clear.</p>	<p>Board decided not to amend its original decision based on this comment.</p> <p>Discussed at June 2018 meeting.</p>
<p><b>Other feedback on the AASB’s tax versus licence feature</b></p> <p>One respondent (S2 – EY) suggests the Board also revise its definition of a tax in AASB 1058 <i>Income of Not-for-Profit Entities</i> to help distinguish between a tax and a licence.</p> <p>One respondent (S4 – SA and TAS Audit Offices) suggests that consistent terminology be used for the terms ‘payer’ and ‘payee’ throughout this section and the remainder of ED 283.</p>	<p>Board decided not to amend its original decision based on this comment.</p> <p>Now using terms consistently in G3.</p>

# Memorandum

**SMC 8** Are you aware of any for-profit public sector licensors issuing non-IP licences? If so, please provide details of these licenses and their accounting treatment, and comment on whether the scope of this Exposure Draft should be extended to for-profit public sector licensors?

SMC 8 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>Three respondents (S1 – KPMG, S3 – Audit Offices, S4 – SA and TAS Audit Offices) supported the AASB expanding the scope of the guidance to for-profit public sector entities, to enhance the application and comparability within and across government sectors. The following examples of non-IP licences issued by for-profit public sector entities were given:</p> <ul style="list-style-type: none"> <li>• forest permits issued by state forestry corporations for research, hunting, filming, firewood collection, grazing and apiary;</li> <li>• water access licences issued by state water corporations – to extract water from rivers or aquifers for irrigation, industrial or commercial purposes; and</li> <li>• licences required to perform work on or near electrical distribution networks, issued by electricity generators to undertake contestable work.</li> </ul>	<p>BC14 clarifies Board’s rationale to not extend to FP public sector.</p> <p>Discussed at June 2018 meeting.</p>

**GMC 9** Whether The AASB’s Not-for-Profit Entity Standard Setting Framework [draft] has been applied appropriately in developing the proposals in this Exposure Draft?

GMC 9 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>The majority of respondents (S1 – KPMG, S3 – Audit Offices, S4 – SA and TAS Audit Offices, S5 – HoTARAC) agreed that the framework had been appropriately applied.</p> <p>One respondent (S2 – EY) considered it inappropriate to comment on whether <i>The AASB’s Not-for-Profit Entity Standard-Setting Framework</i> has been applied appropriately because the framework is not yet finalised.</p>	<p>Board decided not to reassess its application of the framework based on this comment.</p> <p>Discussed at June 2018 meeting.</p>

**GMC 10** Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?

GMC 10 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>Respondents did not raise any issues in relation to this question. Some respondents did raise the interaction with GFS in classifying a licence as a tax, as discussed in SMC 7.</p>	<p>BC101-BC102 address GAAP/GFS convergence.</p> <p>Discussed at June 2018 meeting</p>

**GMC 11 Whether, overall, the proposals would result in financial statements that would be useful to users?**

33 GMC 11 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>Three respondents (S1 – KPMG, S3 – Audit Offices, S5 – HoTARAC) agree that the proposals would result in financial statements that would be useful to users, primarily as implementation guidance will create consistent accounting across jurisdictions. These comments were made subject to other issues raised previously, in particular on issues relating to whether exclusivity is a performance obligation.</p>	<p>Decisions on exclusivity and variable consideration noted in response to other issues raised (see above).</p>
<p>One respondent (S4 – SA and TAS Audit Offices) is concerned that the proposals in the ED will lead to different interpretations and accordingly differing treatment of public sector non-IP licences and associated income, primarily due to the complexity and difficulty estimating variable consideration up front, as discussed in the responses to SMC 6.</p>	
<p>One respondent (S6 – AHPRA) notes that the proposals would potentially mean that all its revenue is recognised upfront, compared to some being over time at present. The respondent noted that some of its licences require renewal by all licensees on a single date, which would mean that a ‘spike’ would occur in disclosures on monthly reporting.</p> <p>The respondent noted that this change to recognition of revenue will need to be clearly communicated to all stakeholders to explain changes to the annual financial statements, to ensure they are still useful to users.</p>	<p>Board decided not to address this comment explicitly.</p> <p>Discussed at the June 2018 meeting.</p> <p>Staff will consider if necessary to address in any communications related to the Standard.</p>

**GMC 12 Whether the proposals are in the best interests of the Australian economy?**

GMC 12 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>No specific comments were given in this regard, with two respondents (S3 – Audit Offices, S4 – SA and TAS Audit Offices) noting that they are not in a position to comment.</p>	<p>No action necessary</p>

**GMC 13 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

GMC 13 Respondents comments	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>No specific comments were provided by respondents.</p>	<p>No action necessary</p>

34 **Other comments**

<b>Other Comment – AASB 1059 interactions</b>	<b>Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at</b>
<p>One respondent (S2 – EY) suggests the AASB exclude all licences that fall within the scope of AASB 1059 <i>Service Concession Arrangements</i> from the scope of AASB 15, to avoid any confusion about which Standard takes precedence for arrangements which could fall within the scope of both Standards.</p> <p>The respondent also notes that the accounting outcome would be significantly different for arrangements which may be very similar to a service concession arrangement, but fall outside the scope of AASB 1059 and is instead accounting for as a licence under AASB 15. For example, under AASB 1059, where the operator constructs an asset for the grantor and receives the right to charge users (licence to charge users) then the grant of a right to the operator model applies and revenue will be deferred (ie a non-financial liability is recognised which is amortised over the term of the arrangement). On the other hand, where the SCA falls out of scope of AASB 1059, but is considered to fall into scope of AASB 15, it may be considered that the promise to transfer to the right to charge users (ie the non IP licence) is satisfied once the asset is constructed and all revenue would be required to be recognised at that time.</p>	<p>Aus5.2 amended to clarify that AASB 1059 takes precedence.</p> <p>BC38-BC39 and BC91-BC95 set out the Board’s view on the difference between licences and service concession arrangements.</p> <p>Discussed at June 2018 meeting.</p>
<b>Other Comment – Scoping of licences</b>	<b>Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at</b>
<p>One respondent (S2 – EY) commented that the proposed wordings of paragraph Aus5.2 would require all licence arrangements of NFP entities to be within the scope of AASB 15 (ie as if all licence arrangements are contracts with customers) even if in substance some of them are not, for eg because they are taxes. The respondent’s view is that the proposals should apply to licence arrangements only where they are indeed contracts with customers (with contracts defined to include those that arise from statutory or legislative requirements).</p>	<p>BC29-BC52 sets out Board’s rational on scoping.</p> <p>Discussed at June 2018 meeting.</p>

<b>Other comment – examples of IP licences</b>	<b>Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at</b>
<p>One respondent (S3 – Audit Offices) requests further guidance of the types of intellectual property that might exist in the public sector, noting that examples of IP licences provided in AASB 15 paragraph B52 are private sector in nature and not generally applicable to the public sector.</p>	<p>G14 has added example of research findings as IP common in NFP public sector.</p> <p>Discussed at June 2018 meeting.</p>

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Other comment – examples of IP licences	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>One respondent (S4 – SA and TAS Audit Offices) provided outsourced maintenance of data for lands titles (which can include a licence to use that data for commercial purposes) as an example of licences that involve the non-identified assets of a licensor. The respondent requests the AASB clarify whether such arrangement is an IP licence in accordance with AASB 15 (where not a service concession arrangement).</p> <p>One respondent (S2 – EY) is aware of certain licences issued which allow access to data registries that could contain unidentified assets such as customer relationships, trademarks and brand names</p>	

Other comment – additional guidance on terms used	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>One respondent (S3 – Audit Offices) requests additional guidance to clarify the differences between ‘rights over the licensor’s identified assets’, ‘right to perform an activity’, ‘right to use’ and ‘right to access’, as highlighted in ED 283.</p>	<p>BC65 amended to clarify which ‘bucket’ of licence the different types fall into.</p> <p>Discussed in June 2018 meeting.</p>

Other Comment – editorials	Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at
<p>One respondent (S2 – EY) noted the following editorial matters:</p> <ul style="list-style-type: none"> <li>• paragraph G1, in the first box, should refer to ‘is the transaction a licence or a tax’ rather than ‘is it a non-IP licence’;</li> <li>• paragraph G15 should refer to ‘non-IP licence’ rather than just ‘licence’;</li> <li>• paragraph G6 should add ‘where grant of licence is a lease, account for in accordance with AASB 16’;</li> <li>• paragraph G13(c) should be split into (i) distinct and (ii) not distinct;</li> <li>• paragraph G14 should give examples of when a licence would be issued as part of a bundle of goods or services;</li> <li>• paragraph IE6 – the first sentence should say “satisfies its performance obligations related to the licence” rather than referring to the “transferring of the licence”</li> </ul>	<p>Addressed as necessary throughout.</p> <p>Discussed in June 2018 meeting.</p>

# Memorandum

<b>Other Comment – editorials</b>	<b>Reference to paragraph of Pre Ballot Draft (see Agenda Paper 3.1/3.2) where addressed, and Board meeting discussed at</b>
<ul style="list-style-type: none"><li>• paragraph IE7 – the respondent requests the AASB:<ul style="list-style-type: none"><li>○ provides an example of a licence with revenue recognised over time;</li><li>○ clarifies if the arrangement is a licence or a tax; and</li><li>○ whether it can transfer goods and services to other beneficiaries and still be a performance obligation.</li></ul></li><li>• paragraph IE8 – is the licence a licence or a tax?</li></ul>	