



<b>Project:</b>	<b>Revenue from Licences Issued by NFP Public Sector Licensors</b>	<b>Meeting:</b>	M166 (August 2018)
<b>Topic:</b>	<b>Alternative approach</b>	<b>Agenda Item:</b>	3.2
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Revised guidance and examples

## Objective of this paper

- 1 As noted in Paper 3.0, if the Board does not agree with the analysis or with the outcomes of the analysis, consideration has to be given to other options to finalise the project. The objective of this paper is to provide the Board with alternative approaches to enable the Board to determine how the project should be finalised.

## Background

- 2 At the June 2018 Board meeting, it was agreed that Staff would explore and provide updated examples of NFP public sector licencing arrangements. Agenda papers 3.0 and 3.1 have explored and provided the Board with these updated examples and guidance as decided at that June 2018 Board meeting together with decisions made by the Board progressively throughout this project.

## **Context**

### ***What is the significance of licences issued by public sector licensors?***

- 3 In assessing the options for finalising the project, as requested, Staff have performed more detailed analysis of the NFP Standard Setting Framework criteria, particularly regarding the significance of the issue to the public sector. Based on 2017 data, Licences do not appear to constitute a significant portion of public sector revenue. For example in NSW, revenue from licences, which included \$2.9bn in unearned revenue, amounted to just 3.74% of NSW's state revenue for the financial year ending 2017. Other states generated less than 1.5% of their 2017 annual revenue from licences. Other than NSW, other states did not even specify whether their liabilities include material unearned revenue from granting of licences.
- 4 More specifically, with respect to casino licences, which Staff have focussed on due to the apparent disparate treatment across different jurisdictions, there is generally only one (or a limited number) of casino licences issued in each jurisdiction and Staff analysis of publicly available information shows that revenue reported as casino/gaming fees for all states constitutes to less than 1% of total revenue.
- 5 Some specific examples of recently issued gaming licences include the:
  - (a) Queens Wharf Casino Licence (Queensland) was for a fee of \$91m which equates to 0.16% of the state's total revenue in the year ending 30 June 2017;
  - (b) Crown Casino Licence (Victoria), according to media sources, was issued for a fee of \$250m for a length of 17 years. This represents 0.36% of the State's total revenue in the year ending 30 June 2017. The media also reports that the state will generate \$910m in total from the agreement, which presumably includes the estimated variable consideration. In this instance, this is a proportion of 1.32% in the year ending 30 June 2017;
  - (c) Barangaroo NSW restricted gaming facility paid \$100m for its licence, which equates to 0.12% of the State's revenue in the year ending 30 June 2017.

### ***What do users think?***

- 6 AASB Staff recently met with a leading Australian credit rating agency's representatives who specialise in rating governments. These users of public sector reporting indicated that revenue from licences issued by public sector licensors is immaterial and no matter how it was accounted for by the accounting Standards, or Government Finance Statistics, they would always remodel the information to a cash basis and recognise revenue when the cash was received.

## Options for completing this project

7 Staff have set out below alternative options for the Board to consider with respect to completing this project:

	Reasons in favour <sup>1</sup>	Reasons against <sup>1</sup>
<p><b>Option 1:</b></p> <p>Continue to proceed with the approach decided by the Board in previous Board meetings with respect to accounting for licences issued by NFP public sector licensors (as outlined in Agenda Papers 3.0 and 3.1) and finish the project as originally planned.</p>	<ul style="list-style-type: none"> <li>• Transaction neutral</li> <li>• The practical expedients can be applied to the majority of licences issued by public sector licensors<sup>2</sup></li> <li>• AASB Staff and the Board have already invested extensive time on this project and have provided public sector stakeholders with guidance that they said would be helpful, which is a key objective of the AASB</li> <li>• Can be completed by effective date of AASB 15 for NFPs</li> <li>• future proofs the standard in the event that licences become more significant in future</li> </ul>	<ul style="list-style-type: none"> <li>• This option may not reduce diversity in practice, as materiality of licences may mean they continue doing what they are currently doing</li> <li>• Some constituents will continue to argue that the outcomes do not reflect economic substance of the transaction</li> <li>• Not consistent with GFS</li> </ul>

<sup>1</sup> In accordance with the NFP Standard-setting framework

<sup>2</sup> Based on feedback provided to AASB Staff, most licences issued by NFP public sector licensors are either low value or short term licences.

	Reasons in favour <sup>1</sup>	Reasons against <sup>1</sup>
<p><b>Option 2:</b></p> <p>Create a rule divergent from the principles of AASB 15 to account for licences issued by public sector licensors</p>	<ul style="list-style-type: none"> <li>• Addresses concerns raised by some constituents with respect to the treatment of certain activities performed by public sector licensors under AASB 15 (such as the treatment of regulatory activities).</li> <li>• Reduces diversity in practice and provides consistent reporting of transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Not transaction neutral</li> <li>• Prevalence and magnitude of transactions does not appear significant enough to warrant moving away from principles in AASB 15</li> <li>• If this option was chosen, extensive work would be required by the AASB to ensure that any rule created did not have significant unintended impacts on other Standards</li> <li>• Unlikely to be completed by effective date of AASB 15 for NFPs</li> <li>• Users of financial statements have not requested change</li> <li>• Significant effort would be required to create objective criteria/principles and rationale for the rule</li> <li>• The Board did not make a rule or exemptions in AASB 1058 for more prevalent issues (such as the treatment of peppercorn leases)</li> </ul>
<p><b>Option 3:</b></p> <p>Provide the practical expedients for short-term and low-value licences already drafted and the flowchart demonstrating how to apply AASB 15 drafted in G1 of ED 283 (subject to minor edits based on submissions on ED 283 which have been approved by the Board) and no other guidance.</p>	<ul style="list-style-type: none"> <li>• The prevalence and magnitude of licences does not appear significant enough to require extensive continued effort on this project.</li> <li>• The practical expedients can be applied to the majority of licences issued by public sector licensors<sup>3</sup></li> <li>• Can be completed by effective date of AASB 15 for NFPs</li> </ul>	<ul style="list-style-type: none"> <li>• Does not address alternative views raised by some constituents on the treatment of certain activities performed by public sector licensors under AASB 15 (such as the treatment of regulatory activities).</li> <li>• This option may not reduce diversity in practice, as the practical expedients provide licensors with the choice of over-time or point in time revenue recognition</li> </ul>

<sup>3</sup> Based on feedback provided to AASB Staff, most licences issued by NFP public sector licensors are either low value or short term licences.

	<b>Reasons in favour<sup>1</sup></b>	<b>Reasons against<sup>1</sup></b>
<p><b>Option 4:</b> Practical expedient that requires <b>all</b> licences to be recognised <b>either</b> at a point in time or over time (but not a choice)</p>	<ul style="list-style-type: none"> <li>• Reduces diversity in practice and provides consistent reporting of transactions</li> <li>• Meets some user needs if all revenue recognised at a point in time when licence issues (in cases where that is when cash is received)</li> <li>• Can be completed by effective date of AASB 15 for NFPs</li> </ul>	<ul style="list-style-type: none"> <li>• Not transaction neutral</li> <li>• May not (depending on which practical expedient is taken) address alternative views raised by some constituents on the treatment of certain activities performed by public sector licensors under AASB 15 (such as the treatment of regulatory activities).</li> <li>• May not (depending on which practical expedient is taken) reflect the economic substance of most public sector licences</li> </ul>
<p><b>Option 5:</b> Do not proceed with the Exposure Draft and allow the NFP public sector to apply AASB 15 unamended</p>	<ul style="list-style-type: none"> <li>• Transaction neutral</li> <li>• The prevalence and magnitude of licences does not appear significant enough to require extensive continued effort on this project.</li> </ul>	<ul style="list-style-type: none"> <li>• This option does not address diversity in practice</li> </ul>

### Staff recommendation

- 8 Based on analysis performed above in paragraph 7, Staff recommend Option 1 (i.e. continue to proceed with the approach decided by the Board in previous Board meetings with respect to accounting for licences issued by NFP public sector licensors (as outlined in Agenda Papers 3.0 and 3.1) and finish the project as originally planned). The main reasons for this recommendation are that AASB Staff and the Board have already invested extensive time on this project and have provided public sector stakeholders with guidance that they said would be helpful - a key objective of the AASB.

### Question for Board members

**Q1** Do Board members agree with the Staff recommendation to proceed continue to proceed with the approach decided by the Board in previous Board meetings with respect to accounting for licences issued by NFP public sector licensors (as outlined in Agenda Papers 3.0 and 3.1) and finish the project as originally planned)?