William Buck

13 August 2015

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Online submission via aasb.gov.au

Dear Ms Peach

AASB ED 260 *Income of Not-for-Profit Entities*

William Buck would like to provide you with our comments on AASB ED 260 *Income of Not-for-Profit Entities* as our client base includes many not-for-profit entities (NFPs) that would be impacted by the proposals in the ED. The majority of NFPs we represent are small private NFPs registered under the Australian Charities and Not-for-profit Commission (ACNC) and include associations and co-operatives throughout Australia.

Although we appreciate that the accounting for income by NFPs requires updating due to the issuance of AASB 15 *Revenue*, our view is that some of the proposals in the ED will not provide useful information and will be difficult and expensive for our NFP clients to apply because of the time and effort they require; for example, determining whether performance conditions are sufficiently specific. We therefore recommend that some modifications are made to the proposals so that they will provide useful information and will be easier for smaller NFPs to apply; for example, to apply AASB 15 a customer contract must be enforceable and contain performance obligations, which can be implicit with reference to the NFP's benevolent objectives or explicit.

Due to our extensive experience working with NFPs, we consider ourselves to be the voice of the smaller NFP space and our comments in the attached appendix reflect their concerns with the proposals. The attached appendix contains our responses to the specific questions asked in the ED and includes our recommended modifications. We believe that these modifications will provide more useful and relevant information to users and will be simpler for NFPs to apply. If you wish to discuss our comments further, please contact Anna Adamidis at anna.adamidis@williambuck.com.

Yours faithfully
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APPENDIX

Specific Matters for Comment

1 In relation to the AASB's proposal to replace the reciprocal / non-reciprocal transfer distinction in AASB 1004 with income recognition requirements based on whether a not-for-profit entity needs to satisfy a performance obligation:
(a) do you agree that this proposal would provide a faithful depiction of a not-for-profit entity's financial performance?
(b) if not, what alternative approach to income recognition would you recommend for not-for-profit entities? Please provide your reasons.

We agree with this proposal in order to align with the income recognition requirements of AASB 15.

2 In relation to the AASB's proposal that, to qualify as a performance obligation, a not-for-profit entity's promise to transfer a good or service to a counterparty in a contract must be 'sufficiently specific' to be able to determine when the obligation is satisfied (see paragraph IG13 of Part A):
(a) do you agree with this proposal?
(b) if not, what factors or criteria should apply to determine whether a not-for-entity has a performance obligation? Please provide your reasons.

We do not agree with this proposal because we consider reference to a NFP's objectives to be sufficiently specific given that grants provided to a NFP with such a reference will always require the NFP to perform certain obligations. In situations where these obligations are not explicitly identified, it is still clear that a NFP must utilise the grant in a way that meets its objectives. Otherwise, the terms and conditions of the grant require that it be returned to the grantor.

We also consider that this proposal would be too costly to apply due to the time and effort needed to assess each contract in determining whether the sufficiently specific criterion is met.

We believe that all grants should be accounted for the same way and not be differentiated on the basis that one has explicit specific obligations while another has implicit obligations (with reference to the objectives). To differentiate on this basis where a grant with implicit obligations is accounted for upfront like a donation does not provide useful information to users and is not a faithful depiction of a NFP's financial performance.

Consider a situation where a grant is provided to a NFP to be utilised in accordance with its objectives over x years. The grant includes a repayment clause which the grantor decides to exercise because the NFP did not spend the grant in accordance with its objectives. The fact that the grantor can do this implies that the objectives are specific enough to allow performance obligations to be identified.

Therefore, given that we consider that funds provided to a NFP to be spent in accordance with its objectives over a certain period should qualify as performance obligations, we recommend updating paragraphs IG13 and IG14 and removing paragraphs IG15 and IG17 and example 3B. These modifications will remove the complexity in applying AASB 15 for NFPs and will provide a better representation of a NFP's financial performance because it will result in better matching between income and expenses.

This is critical for NFPs as future grants often depends on their current financial performance and if this is volatile it can be difficult to determine a NFPs funding needs.

Should a NFP receive a grant without any performance obligations (e.g. no reference to objectives or a requirement to provide a specific program) we believe that these grants should be recognised as income on receipt as they are akin to a donation.

3 Do you agree with the proposal in paragraphs IG19-IG30 of Part A that a not-for-profit entity would recognise a donation component in a contract with a customer as immediate income only if:
(a) a qualitative assessment of available evidence indicates that the customer intended to make a donation to the not-for-profit entity; and
(b) the donation component is separately identifiable from the goods or services promised in the contract? (See also paragraphs BC36-BC49 of the Basis for Conclusions.)
If not, under what circumstances should a not-for-profit entity identify and account separately for a donation that is provided as part of a contract with a customer?

We believe that the only situation in which a NFP should identify and separately account for a donation in a contract is when it meets the criteria for tax deductibility by the customer.

4 In relation to the AASB's proposals to:
(a) permit any not-for-profit entity to recognise volunteer services as income if the fair value of those services can be measured reliably; and
(b) carry forward the requirement in paragraph 44 of AASB 1004 that particular public sector entities must recognise volunteer services if those services would also have been purchased if they had not been donated, the AASB seeks views on:
(a) whether the requirements (if any) for the recognition of volunteer services should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector; and
(b) if your answer to (a) is 'yes', whether the recognition of volunteer services should be:
(i) optional, provided that the fair value of those services can be measured reliably; or
(ii) required if those services would also have been purchased if they had not been donated.
(See also paragraphs BC59-BC63 of the Basis for Conclusions.)

The requirements for the recognition of volunteer services should be the same for all NFPs but should be optional with adequate disclosures so that users are aware that the NFP has received these services. This therefore allows those NFPs with the adequate resources to measure those services.

5 Do you agree with the proposal in paragraph 31 of [draft] AASB 10XX that, when inventories are donated to a not-for-profit entity other than as part of a contract with a customer, assessments of whether the donations are material should be made on an individual transaction basis without reassessment at a portfolio or other aggregate level? (See also paragraphs BC50-BC51 of the Basis for Conclusions.)

We agree with this proposal.

6 Australian Accounting Standards applicable to for-profit entities do not include a definition of 'contributions by owners'. Further, concerns have been expressed by some that the definition of 'contributions by owners' in AASB 1004 is too narrow. Do you consider that a definition of 'contributions by owners' is still necessary, or appropriate, in Australian Accounting Standards? If so, would you prefer using:
(a) the definition of 'contributions by owners' presently in AASB 1004; or
(b) the definition of 'ownership contributions' in the Public Sector Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB)? (See also paragraphs BC84-BC91 of the Basis for Conclusions.)

We do not believe that a definition is still necessary because the Conceptual Framework provides adequate guidance.

7 The AASB also seeks views on the following issues related to contributions by owners:
(a) whether, in view of concerns expressed by some that using AASB 1004's definition of 'contributions by owners' in AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities (which includes for-profit public sector entities in its scope) might prevent a for-profit entity in the public sector from making an unreserved statement of compliance with IFRSs, AASB Interpretation 1038 should be:
(i) withdrawn;
(ii) retained but with narrower application [that is, limited to not-for-profit entities in the public sector, and possibly also confined to identifying which not-for-profit public sector entities should account for transfers between them when they are controlled by the same parent (government)]; or
(iii) retained without amendment? (See also paragraphs BC84-BC94 of the Basis for Conclusions.)

In view of the concerns expressed in BC88, we think that AASB Interpretation 1038 should be withdrawn.

(b) whether requirements for restructures of administrative arrangements (presently set out as paragraphs 54-59 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraph BC90(b) of the Basis for Conclusions);

These requirements should not be included because we agree with BC91(b).

(c) whether requirements for distributions to owners (presently set out as paragraphs 49 and 53 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC94-BC96 of the Basis for Conclusions);

These requirements should not be included because we agree with BC97.

(d) whether requirements for liabilities of government departments assumed by other entities (presently set out as paragraphs 39-43 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC97-BC98 of the Basis for Conclusions); and

These requirements should not be included because we agree with BC99.

(e) the practical implications if the definition of 'contributions by owners' and AASB Interpretation 1038 were to be withdrawn?

We consider the practical implications to be minimal.

8 In relation to disclosure requirements regarding compliance by government departments with appropriations, do you agree with:
(a) omitting the requirement in paragraph 64(e) of AASB 1004 to disclose the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended? (See paragraphs BC99-BC103 of the Basis for Conclusions.)
(b) extending the scope of the retained disclosure requirements for government departments (ie those regarding any non-compliance reflected in material variances between amounts appropriated and amounts expended) to also apply to any other public sector entities that obtain part or all of their spending authority from parliamentary appropriations? (See also paragraphs BC99-BC103 of the Basis for Conclusions.)

We agree with these proposals.

9 Do you agree with the proposed transitional provisions in Appendix C of [draft] AASB 10XX? In particular:
(a) do you agree with the transitional provisions for non-financial assets and finance lease assets and liabilities, the cost of which was not measured at fair value on initial recognition; and
(b) do any other issues warrant additional transitional provisions and, if so, which transitional provisions do you suggest? (See also paragraphs BC104-BC109 of the Basis for Conclusions.)

We do not agree with the proposed transitional provisions because of the cost and difficulty involved to retrospectively measure the fair value of non-financial assets and finance lease assets received before the period of initial application. Our preferred approach would be for prospective application as this would be the simplest and most cost effective method for NFPs to apply. We also strongly recommend that there should be an exception in circumstances when it is impracticable to determine the fair value or where it cannot be measured reliably, to provide appropriate disclosure instead.

General matters for comment
10 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities, including GAAP/GFS implications (discussed above).

The only regulatory issue we have identified that may affect implementation is where revenue is used as a threshold for reporting purposes. For example, the ACNC has a tiered reporting framework based on revenue thresholds. The implementation of these proposals may impact which tier the entity falls into. The main issue in relation to this is that with the potential volatility the proposals will introduce, a NFP may move between tiers from one year to the next.

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

We do not believe the proposals in relation to identifying sufficiently specific performance obligations would result in financial statements that would be useful to users because users would expect that most grants be deferred and not accounted for upfront like donations. As noted in question 2 however, should a grant contain no performance obligations, specific or otherwise, it would be appropriate to recognise this grant upfront.

We also do not consider recognising the fair value of non-financial assets and finance lease assets in the financial statements to be useful to users because it will distort a NFP's financial performance and position. The outcome of this misrepresentation of a NFP's financial performance and position may be less grants and funds received because the users will think that a NFP has sufficient income and assets.

12 Whether the proposals are in the best interests of the Australian economy.

We do not consider that the proposals are in the best interests of the Australian economy because of the negative impact it will have to NFPs and the funding they receive, as explained in our responses to questions 2 and 11.

13 Unless already provided in response to specific matters for comment 1 – 9 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.

Overall we consider that most NFPs do not have the resources to apply these proposals on transition and thereafter on an on-going basis. As noted in questions 2, 3 and 9 we consider these proposals to be too costly for NFPs to apply due to the time and effort required to apply them.

Other comments

Further to our concerns noted in questions 9 and 11, we believe that non-financial assets and finance lease assets that are received for minimal or nil consideration should not be measured at fair value because it is too costly and would not be useful information to users. Most NFPs do not have the resources to determine fair value and thereafter assess impairment of those assets under AASB 136 *Impairment of Assets*. The increase in a NFP's financial performance and position from recognising these assets at fair value will be misleading to users and may result in NFPs receiving less funding. We strongly recommend that an exception be included whereby if it is impracticable to determine the fair value or where it cannot be measured reliably, appropriate disclosure is provided instead. In the context of these proposals we believe that guidance would be required to extend the use of impracticable to acknowledge that undue cost or effort should also be considered.