

21 October 2016

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Ms Peach

AASB 10XX Income of Not-for-Profit Entities
AASB 2016-X Amendments to Australian Accounting Standards – Australian
Implementation Guidance for Not-for-Profit Entities

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the draft standards. The views expressed in this submission represent those of all Australian members of ACAG.

Overall, we support the development of the proposed income standard for not-for-profit entities (AASB 10XX) and the not-for-profit implementation guidance and illustrative examples for AASB 15 (AASB 2016-X).

We have not identified any fatal flaws but we have identified some areas which could be clearer and refined to assist with a consistent interpretation and implementation.

We appreciate the opportunity to respond and trust that you will find our comments useful.

Yours sincerely



Andrew Greaves
Chairman
ACAG Financial Reporting and Auditing Committee

Matters for comment

1. AASB 10XX Income of Not-for-Profit Entities

Reference	Comment
Standard	
Para. 8	The three identified examples are (a) AASB 16 <i>Leases</i> , AASB 116 <i>Property, Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> . However, the most common asset received is cash, which is a financial asset and is within the scope of AASB 9 <i>Financial Instruments</i> . Therefore, we suggest that AASB 9 should be one of the listed examples.
Para. 9, 10 and 12	Our interpretation is that paragraphs 9 and 10 are drafted on the premise that related amounts include consideration for an asset, as it is a decrease in cash assets. However, paragraph 12 implies consideration is not a related amount in referring to the 'difference between the consideration for an asset and asset's fair value after recognising any related amounts.' We suggest removing reference to consideration in paragraph 12.
Para. 15 and 16 & 17	<p>We agree with the accounting outcome for specific transactions that are generally known as capital grants as outlined in paragraph 16 as it is consistent with the principles of AASB 15 and <i>AASB 120 Accounting for Government Grants and Disclosure of Government Assistance</i>. However, we are not clear on the rationale and principles applied to reach this outcome.</p> <p>We acknowledge that the AASB has decided to include capital grants in AASB 10XX as it is debatable whether there is a transfer of a good or service to a customer as required by AASB 15.</p> <p>We suggest that the rationale for this approach is included in the application guidance (Appendix B) or the basis for conclusions.</p> <p>The proposed paragraphs begin to introduce issues relating to income recognition, including:</p> <ul style="list-style-type: none"> • How remote does the service provision have to be for income recognition purposes where the entity has to provide services to third parties? • At which point of the construction is the performance obligation completed? • How would the need to provide specified services after construction of the asset affect the point at which revenue is recognised? It is unclear what is meant by 'other performance obligations' in paragraph 17.
Appendix A – Defined terms	
"Taxes"	<p>The definition does not distinguish taxes from other statutory charges, including levies, service recovery charges and rates.</p> <p>We suggest that the taxes definition is made clearer to explicitly include statutory charges.</p>
Illustrative examples	
Example 4B	<p>The fact pattern in example 4B and the guidance in paragraph B17 do not appear to align.</p> <p>The accounting treatment of having to consider derecognition of the financial asset appears inconsistent with B17, which considers that there may be a performance obligation based on stipulations attached to the bequest/endowment.</p> <p>As the agreement is a perpetual endowment where only the investment income is used, the performance obligation is also perpetual. Does this result in a perpetual contract liability, or instead in immediate income recognition of the full amount received?</p> <p>Further, the example concludes that the provision of a scholarship is not a transfer of good or service. We are not clear on the rationale and principles applied to reach this conclusion.</p>
Example 4C	<p>In example 4C, the accounting outcome description could be expanded to include an assessment of present value implications for the contract liability and whether there is a donation component.</p> <p>Given the performance obligation is for a 30 year period, should the contract liability be measured at present value which would give rise to a difference between the \$2m cash</p>

Reference	Comment
	<p>received and the contract liability? In addition, the original endowment of \$2m will earn interest while invested that will pay either in part or in total for the liability as it emerges. Should the expected future revenue be taken into account when measuring the liability? If so what rate of interest should be used? The risk free rate?</p> <p>Consequently, is there a rebuttable presumption that any excess of the donation over the present value of providing the service is a donation? Should the rebuttable presumption be dealt with before the proposed accounting treatment is prescribed?</p>
Example 6B	<p>The accounting treatment states that the “related amount” of \$2.4 million is accounted for by Charity B as income. However, this is inconsistent with para. 9 and 10 which refers to income as the excess of the carrying amount of the asset over the related amounts.</p>
Example 7D	<p>It is not clear what the conclusion would be if Charity C had not publicly stated how many water wells would be constructed from each donation (although it knows that 2 water wells can be constructed). Would the ‘sufficiently specific’ criteria have been met?</p>
Example 8A	<p>There is some inconsistency in this example regarding whether the performance obligation is sufficiently specific or not. The fact pattern of the example suggests that the outcomes of the education program that the grant is to be applied to are sufficiently specific but the activities that will be performed to deliver those outcomes are not sufficiently specific.</p> <p>The fact pattern states that the “State Government can enforce the repayment of the grant if the entity does not apply the funds to an education program”. However, the Local Government analysis explains that the State Government can enforce the repayment of the grant if the Local Government “does not undertake the specified activities”.</p> <p>We suggest that the example contains further rationale as to why the activities are not sufficiently specific as per para F20, F24 & F25 Appendix F of AASB 15. It would also help explain why the examples 8A and 8B are required, including why 8A is general and 8B is specific.</p> <p>Also, the description of income as “related amount” is inconsistent with para 9 and 10.</p>
Example 9	<p>The example applies paragraphs 15-17 for specific transactions that are generally known as capital grants. The example would benefit from further explanation of why there is not a transfer of a financial asset, good or service to the transferor, as per paragraph 15(b) of AASB 10XX.</p> <p>The use of the term “performance obligation” which is used only in the context of a contract with a customer under AAB 15 is confusing.</p>

2. **AASB 2016-X Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities (AASB 15 & AASB 9)**

Reference	Comment
Appendix F - Australian implementation guidance for not-for-profit entities	
F5	<p>We are not clear why the following sentence is included in paragraph 5 which is the introduction to the section on “identifying whether a contract with a customer exists”.</p> <p><i>“If a not-for-profit entity’s promise to transfer a good or service in an arrangement with another party fails the ‘sufficiently specific’ criterion discussed in paragraphs F19–F25, that entity shall not treat the promise as a performance obligation in a contract with a customer.”</i></p> <p>It should be clarified whether the AASB intends to say that if there is no sufficiently specific performance obligation, then the arrangement is not considered to be a contract with a customer.</p>
F13	<p>We agree with the principle that “enforceability does not depend on its legal form”. However, the second sentence is difficult to understand as it is too long and contains several clauses. We suggest that the principle of “intention and reliance” is clearly expressed and how it can be supported by the examples.</p>
F25	<p>The issue addressed in this paragraph is whether a single purpose charter entity needs the arrangement to specify the services to be delivered in order for the transfer to meet the ‘sufficiently specific’ criterion when it is only specified that the transfer is to be used for a particular time period. However, by including “for specified services”, the paragraph fails to clarify the issue.</p>
F27	<p>F27 states that the “contract does not establish rights and obligations for the transfer of goods or services to the transferor”. However, there is no explanation as to why a capital grant is not a transfer of good or service to a “customer”. We suggest that the rationale for this approach is included in the application guidance (Appendix F) or the basis for conclusions.</p> <p>Amending this sentence to ‘...goods and services to or as specified by the transferor’ would help avoid confusion that the transferor must be the party that receives the goods and services.</p>
Illustrative examples	
IE3	<p>We suggest replacing “sufficiently specific conditions” with “a sufficiently specific promise to transfer goods or services”. We note that sufficiently specific conditions are present in a capital grant agreement but as the conditions are not promises to transfer goods or services, this is not considered to be a performance obligation.</p>

Reference	Comment
Examples 2A & 2B	<p>Examples 2A and 2B differentiate treatment on the grounds of where intellectual property rights reside. In our view, an example on research is highly desirable to help understand the application of these standards. However, it would be more helpful if the example focused on degrees of specificity in funding arrangements.</p> <p>We find the conclusion formed in example 2B misleading as we don't support the notion that the retention of the IP rights by the university constitutes construction of a non-financial asset. Generally, universities do not recognize assets for grant funded research activity as the recognition and measurement criterion of AASB 138 <i>Intangible Assets</i> cannot be satisfied.</p> <p>However, Intellectual Property (IP) rights can take many forms. For example, there may be an asset such as a marketable patent developed at the conclusion of a research activity. Other forms of IP rights such as knowledge held by employees cannot be capitalized as the IP is not separable from the entity. That is, there may or may not be assets recognised stemming from IP rights.</p> <p>In our view, Commonwealth government grants to universities are not commonly entered into with the expectation that the Commonwealth government (grantor) or the university will gain financial rewards from IP rights. It is common for Commonwealth research grant agreements to have research results and IP managed under 'creative commons', which further supports the view that these types of grants are provided for the purpose of creating and sharing knowledge rather than to provide a financial reward to either the grantor or grantee.</p> <p>Therefore, we would not ordinarily consider that paragraph 15 of AASB 10XX would apply to research grants.</p> <p>We suggest that the following be clarified:</p> <ul style="list-style-type: none"> • How substantial the IP rights are to the funding arrangement needs to be considered in order to determine whether the funding was '... to acquire or construct a non-financial asset to identified specifications...'. In many funding arrangements, the acquisition of future economic benefits in the form of IP are incidental to the grantor's objective that services in the form of research are provided (as referred to in paragraph F21). • Where IP rights do not meet the recognition criteria as an asset, paragraph 15 of AASB 10XX does not apply. <p>We note that given the lack of substance of IP rights in the majority of funding agreements, it is likely that the consideration of who retains intellectual property rights will not be compelling in application.</p>
Example 4	<p>We agree with the conclusion that the contract liability is \$200 and the donation income is \$400. The donation component that is retained even if the dinner is cancelled is \$400. The amount of the refund should be \$200, representing the fair value of the unperformed good or service (dinner).</p> <p>Also, in the sentence "Entity B determines that the presumption in paragraph F28 is rebutted as there is a partial refund in the event of non-performance, <u>the amount to be refunded is specifically identifiable and it does not relate to a performance obligation.</u>", we suggest replacing the underlined portion with "the donation amount is separately identifiable and it does not relate to a performance obligation" (wording consistent with F29).</p>