



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

Our ref Submission-ED283

29 March 2018

Dear Kris

ED 283 Australian Implementation Guidance for Not-for-Profit Public Sector Licensors

We are pleased to have the opportunity to comment on Exposure Draft 283 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors* (ED 283).

We broadly support the proposals, as a whole, set out in ED 283. We expect the proposals will be helpful in ensuring consistency of accounting by not-for-profit public sector licensors. Linking to performance obligations and revenue recognition guidance in AASB 15 *Revenue from Contracts with Customers*, and references to concepts in AASB 16 *Leases* will reduce the likelihood of continued diversity in practice.

Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9120 or Ben Seumahu on (07) 5577 7464.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kim Heng', with a long, sweeping flourish extending to the right.

Kim Heng
Partner

Appendix

Specific matters for comment

- 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.**

We agree with the expansion in scope to include non-contractual licences in order to promote consistency in accounting for revenue arising from such arrangements.

- 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.**

We are not aware of any such lease arrangements.

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

We agree with the requirements for not-for-profit public sector entities set out in paragraphs G10-G13.

- 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.**

We agree with the practical expedients for short-term and low-value licences. These practical expedients would significantly reduce the implementation burden for licences with a significant number of licensees, such as drivers' licences. We expect it would be rare for all licensees to be on the same cycle for licences falling

within these exemptions and therefore the impact on the licensor's financial performance would not be misrepresented.

We recommend that more guidance be provided around what "short-term" and "low-value" means. There is no definition of either of these terms and limited guidance on the application thereof.

In our view, the references in BC73 to short-term being "< 1 year" and BC74 to "allow licensees the option of adopting practical expedients for ... short-term licences, consistent with the precedent set in AASB 16", are helpful in interpreting short term to mean less than 12 months. Whilst we do not expect diversity in practice to result from a lack of definition, it may be helpful to have an explicit reference to the meaning of "short term".

"Short-term" is used in definitions and context in a number of accounting standards. AASB 16 *Leases* defines short-term with reference to 12 months or less¹ and AASB 119 *Employee Benefits* defines short-term with reference to less than 12 months². Other standards use the term with a shorter time-frame which we would not expect preparers to use in the context of this standard; with "short-term" being used in AASB 107 *Statement of Cash Flows* without definition, but referenced to a maturity period of three months or less³. AASB 9 *Financial Instruments* uses the term in the context of the classification of a financial instrument that is held for trading, for "short-term profit-taking"⁴.

"Low-value" is also not a defined term. The IASB provided a guideline of an "order of magnitude of US\$5,000 or less" when developing IFRS 16 *Leases*, however, there was no "bright-line" provided in the standard itself.⁵ We recommend such guidance be echoed in the Basis for Conclusions of this standard. A reminder

¹ AASB 16.Appendix A "short-term lease A lease that, at the commencement date, has a lease term of 12 months or less."

² AASB 119.8 "Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service."

³ AASB 107.23A(c) "other short-term borrowings, for example, those which have a maturity period of three months or less."

⁴ AASB 9.Appendix A

⁵ AASB 16.BC100 "At the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US\$5,000 or less. A lease will not qualify for the exemption if the nature of the underlying asset is such that, when new, its value is typically not low. The IASB also decided that the outcome of the assessment of whether an underlying asset is of low value should not be affected by the size, nature, or circumstances of the lessee—ie the exemption is based on the value, when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset."

around “low-value” being a concept rather than an assessment of materiality should also be included.

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).**

We agree with the AASB’s proposal to use the general guidance in AASB 15 paragraphs 56-57 to determine the transaction price for non-intellectual property licensing arrangements so that consistency of accounting is maintained across sectors.

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)

Examples of non-IP licences issued by not-for-profit sector licences that we are aware of include licences to operate a casino and to operate a lottery. The licence to operate a casino is explored in Examples 8 and 9 of the proposed implementation guidance, and we expect similar considerations based on the guidance in paragraphs B52-B63B would be made in the context of a lottery licence.

- 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?**

We agree with the features outlined in paragraph G3 to determine a tax from a licence provides sufficient guidance in making this distinction.

- 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?**

We would expect instances of traditional licences to be issued by for-profit public sector entities, particularly those entities involved in complex infrastructure arrangements. Whilst we are unable to comment on the specific details or accounting treatment, we would recommend the scope of ED 283 be extended to these entities to ensure consistency of practice across all sectors.

General matters for comment

- 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?**

We agree the process in issuing the exposure draft is consistent with the (proposed) AASB Not-for-Profit Standard Setting Framework, as it relates to application of a new standard (AASB 15) and there is diversity in practice currently between not-for-profit public sector entities. However, we note the issue is specific to the public sector due to the proposed standard's focus on the ability to issue licenses through statutory means rather than through contract, and therefore the number of entities impacted through the standard is small relative to the total number of not-for-profit entities.

- 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?**

We do not currently foresee any specific issues arising in relation the GFS implications.

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

We agree the proposals would result in financial statements that would be useful to users.

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

We do not have any specific comments on whether the proposals are in the best interest of the Australian economy.

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.

We do not have any specific additional comments on the costs and benefits of the proposals.