

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

21 October 2016

Invitation to comment – Fatal-Flaw Review Drafts - AASB 10XX *Income of Not-for-Profit Entities* and AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*

Dear Ms Peach

Ernst & Young Australia ('EY', 'we', 'us') is pleased to provide comments on the Australian Accounting Standards Board's ('AASB's') Fatal-Flaw Review Drafts AASB 10XX *Income of Not-for-Profit Entities* ('AASB 10XX') and AASB 2016-X *Amendments to Australian Accounting Standards- Australian Implementation Guidance for Not-for-Profits* ('AASB 2016-X').

In line with our previous comments dated 14/08/2015, we support the AASB's approach to providing guidance for the Not-for-Profit ('NFP') sector on recognising income. We welcome the addition in AASB 10XX and AASB 2016-X of guidance on the measurement of assets received for nil or nominal consideration. We consider the more comprehensive examples, and the transition relief provided to be appropriate and helpful to NFP entities implementing the new and revised standards, with one exception as follows:

AASB 10XX, Example 8- Multi-year cash grant

The opening paragraph provides a base fact pattern for Examples 8A and 8B, including the sentence "The grant is to fund a *specified* education programme to increase the literacy..." (emphasis added). We consider the word "specified" to be potentially in conflict with the additional facts provided in Example 8A, bullet point 1 "the MOU *does not specify* the activities the grant must be used for, other than for an education program to increase literacy..." While one is specifying the programme, and the other is specifying the activities, we feel that the use of the word 'specified' in the first sentence creates confusion around what may or may not be specified in the grant, and therefore what may or may not be 'sufficiently specific' already in the base fact pattern. We recommend removing the word "specified" from the opening paragraph.

We would also note the potential for confusion caused by leaving the title of AASB 1004 *Contributions* unchanged while substantially changing its scope; however we recognise there may be a legal impediment to changing the title.

In addition, we note that there are areas where the examples given potentially venture into interpreting other standards. We have included examples in the Appendix.

While we acknowledge that some entities in the sector may find it challenging to apply the new requirements in practice, we believe that the proposed Standard as written provides a comprehensive revenue model for NFP entities, consistent with the Conceptual Framework and sensitive to the issues most commonly seen in the sector.

Should you wish to discuss the contents of this letter further with us, please contact Georgina Dellaportas (georgina.dellaportas@au.ey.com or (03) 9288 8621) or Anne-Marie Johnson (anne-marie.johnson@au.ey.com or (02) 9248 5537).

Yours sincerely



Ernst & Young

Appendix

- AASB 10XX para B14 – requires an entity to determine each condition that must be satisfied before a non-financial asset is recognised. This appears contradictory to the requirements in AASB 116, 117, 138 etc. We suggest that what is meant is that an entity should determine each condition that must be satisfied before income can be recognised under this standard.
- AASB 10XX B19 – last sentence – We suggest removing the reference to published policies and past practice as this limits the circumstances where a provision can be recognised for constructive obligations and restricts the requirements in AASB 137.
- AASB 10XX example 4B – The example does not appear to illustrate the principle of the standard but rather provides an example of the derecognition principles in AASB 9. We would suggest providing two examples – one where the university has no control over the endowment and only controls the interest and one where the university has control over both the endowment and the interest.
- AASB 10XX Example 12 – This example illustrates principles in AASB 9 and not AASB 10XX. We suggest that this be expanded to show how the principles in para 8-10 are applicable.