Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-Implementation Reviews**	**Meeting:**	M201
Topic:	**Income of Not-For-Profit Entities – Principal v agent, including the appropriate recognition of financial liabilities**	**Agenda Item:**	8.1
		Date:	20 February 2024
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		Decision-Making:	Low
		Project Status:	Initial consideration of stakeholder feedback

Objective of this paper

1 The objective of this Staff Paper is for the Board to:

(a) **consider** the feedback received on Topic 4: Principal v agent, including the appropriate recognition of financial liabilities included in Invitation to Comment 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50); and

(b) **discuss** the feedback, staff analysis and preliminary views in relation to ITC 50 Topic 4**.** The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions for further analysis. Following the discussion staff will develop recommendations and ask the Board to decide on possible next steps[1] at a future meeting.

Structure

2 This paper is structured as follows:

(a) Background (paragraphs 3 to 12)

(b) Analysis of respondents' feedback (paragraphs 13 to 53)

(c) What the AASB has done so far (paragraphs 54 to 83)

(d) Staff analysis and preliminary views (paragraphs 84 to 101)

(e) Other matter raised (paragraphs 102 to 114)

Background

3 The accounting for income differs depending on whether an entity is a principal or an agent as this determines whether income is presented on a gross or net basis. A principal (i.e. an entity that will provide goods or

1 See Agenda Paper 7.1 *Cover Memo* Appendix A: Post-implementation review decision-making process and Appendix B: Possible responses to PIRs (November 2023).

services) recognises the gross amount paid by the customer as income and records a corresponding expense for the commission or fee it has to pay to any agent in addition to the direct costs of satisfying the contract. However, an agent (i.e. an entity whose role is to arrange for another party to provide the goods or services) recognises as income the commission or fee earned for facilitating the transfer of goods or services.

4 AASB 15 *Revenue from Contracts with Customers* includes general guidance to help entities determine whether they act as a principal or an agent.[2] AASB 1058 *Income of Not-for-Profit Entities* includes Illustrative Example 3 to illustrate the accounting treatment where an entity's only obligation is to transfer funds to other entities. However, no specific not-for-profit (NFP) guidance was added to AASB 1058 or Appendix F *Australian implementation guidance for not-for-profit entities* of AASB 15 to assist NFP entities in determining in which capacity they are acting.

5 In January 2022, the AASB issued Exposure Draft ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases*, which proposed an amendment to Illustrative Example 3A intending to clarify the accounting requirements. However, most respondents to ED 318 were not supportive of the proposed amendments at that time, preferring that the AASB consider any changes to the example as part of this post-implementation review (PIR).[3]

6 Stakeholders have suggested that to address the accounting treatment of such transactions, it is necessary first to address whether the NFP entity is considered a principal or an agent and, therefore whether funds received and monies spent should be recognised on a gross or net basis.

7 As summarised in Agenda Paper 3.2.1 (October 2023) providing an overview of the feedback from the PIR by topic, prior to issuing ITC 50 stakeholder feedback suggested that further clarification is required regarding the accounting treatment of financial instruments under AASB 1058[4] particularly whether to recognise a financial liability if an entity's only obligation is to transfer funds received to other entities. Some stakeholders suggested that AASB 1058 should include:

(a) an example with facts and circumstances where the recognition of a financial liability is appropriate, with an explanation; and

(b) a contrasting example where no recognition of a financial liability is required, explaining why not.

8 Stakeholders also expressed concerns that the existing Illustrative Examples may lead to diversity in recognising financial liabilities. Further, stakeholders were concerned that Illustrative Example 3A[5] attached to AASB 1058 does not conclude whether any financial liability is recognised and, if so, what amount should be recognised.

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2 AASB 15 paragraphs B34 to B38. Refer to Appendix A for an extract of paragraphs from the Standard.

3 The main reasons given by those respondents for not proceeding with the amendments at that time were:
(a) the potential significant change in practice if the assessment of principal versus agent would result in net recognition, including the need for transitional provisions;
(b) a change in accounting treatment may reduce the size of many charities, which means that they might no longer be required to lodge any financial reports with the Australian Charities and Not-for-profits Commission (ACNC) and might no longer be subject to audit or review – implications that would need to be discussed with the ACNC;
(c) the reasons and bases for the conclusions reached have the potential for users to draw incorrect conclusions on alternative fact sets; and
(d) the scenarios illustrated in the examples in ED 318 are not practical examples. However, the complexities of more realistic scenarios that would be most beneficial to stakeholders should be addressed during the PIR.

4 AASB 1058 paragraph 9: 'On initial recognition of an asset, an entity shall recognise any related contributions by owners, increases in liabilities, decreases in assets, and revenue ('related amounts') in accordance with other Australian Accounting Standards. For example, related amounts may take the form of: … (d) a financial instrument, in accordance with AASB 9.'
AASB 1058 paragraph 10: 'Except as set out in paragraphs 15–17, an entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset over the related amounts recognised in accordance with paragraph 9.'

5 Illustrative Example 3A illustrates the accounting treatment for an endowment received by a university where most of the income generated from the principal amount is required to be applied towards a specific purpose (providing scholarships to students). Illustrative Example 3A concludes the endowment is accounted for under AASB 9 *Financial Instruments*, in accordance with paragraph 9 of AASB 1058, with any difference between the financial asset recognised (being the endowment received) and a related financial liability also to be recognised under AASB 9. Paragraph 10 of AASB 1058 does not apply.

9 The following examples were included in ITC 50 to illustrate the concerns of stakeholders:

Examples

Foundation

A foundation that provides funding and support for other charitable organisations by providing them with grants has a charter that outlines the foundation's charitable objectives. The charter states that funds raised by the foundation will be directed to other charitable organisations on a best endeavours basis. The activity of raising and distributing funds is the only activity of the foundation.

Following the principles of Illustrative Example 3A, stakeholders have suggested it is unclear whether the foundation should recognise a financial liability for any funding raised that will be directed to other charitable organisations. This is because the Illustrative Example does not provide guidance on the principal/agent determination.

For example, if the foundation is a principal, it would recognise revenue for all funds raised. However, if it is an agent, it would recognise a liability for the funds that will be distributed to other charitable organisations and recognise revenue only for amounts that the foundation will retain (if any) (for example, to cover administration expenses).

Where differences in application exist in practice, this will reduce the comparability of NFP entity financial statements.

University

A university receives funding that needs to be applied to a specific purpose, such as the payment of scholarships to students. The funding includes terms stipulating how associated interest income from investing the funds should be used.

This fact pattern is similar to Illustrative Example 3A. In this circumstance, as the funding needs to be used for student scholarships, some stakeholders consider that the university is acting as an agent of the grantor. Under this view, the university would recognise a financial liability for the funding received.

10 ITC 50 asked the following questions on principal versus agent, including the appropriate recognition of financial liabilities:

Questions for respondents

Regarding the recognition of financial liabilities, if an NFP entity's only obligation is to transfer funds received to other entities, do you have any comments on:

11. *the determination of whether the entity is a principal or an agent?*

12. *whether differences in application exist in concluding whether an NFP entity is a principal or an agent? If there are differences in application, do they significantly affect the comparability of financial statements?*

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

13. *In relation to determining whether an NFP entity is a principal or an agent, do you have examples of specific scenarios where there are practical challenges and application issues?*

If so, please provide details of the complexities associated with this determination, such as the level of discretion the entity has in determining to whom funds will be passed, and illustrate the relevant circumstances, their significance and the prevalence of any differences in application.

14. *Is there any guidance that would help you determine whether an NFP entity is a principal or an agent? If so, please provide details of the guidance and explain why you think it would be useful.*

11 Following the issue of the ITC, during the outreach phase of the PIR, staff actively engaged with stakeholders to seek feedback on this topic.[6] In addition to formal comment letters being submitted, stakeholders could also provide feedback on this topic via a survey and discussion during the various roundtable events held by staff.[7] Stakeholders were also invited to discuss the topic further during one-on-one meetings with staff where they requested this.

12 This Staff Paper is part of the 'feedback and next steps' phase of the PIR process. Appendix A and B of Agenda Paper 7.1 (November 2023) sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required.

Analysis of respondents

13 Details of stakeholders who provided feedback on ITC 50 Topic 4 include:

	Response details
Comment letter respondents:	11 out of 15 respondents provided comment. See submissions 1, 4, 6 to 10 and 12 to 14 on the AASB website.
Survey responses to the question 'have you experienced or are you aware of any application issues arising from determining whether an NFP entity is principal or agent?':	6 respondents answered 'Yes' while 6 answered 'No.' 10 survey respondents skipped the question. See page 15 of Agenda Paper 3.2.5 *ITC 50 Survey responses* (October 2023) and pages 16 to 18 for further responses relating to this topic.
Virtual outreach meetings	A number of stakeholders provided feedback during these meetings: • Not-for-Profit Advisory Panel (5 out of 13 attendees commented); • Roundtable 1 (Not-for-Profit Private Sector stakeholders) (3 out of 17 attendees commented); • Roundtable 2 (Local Government stakeholders) (2 out of 53 attendees commented); • Roundtable 3 (State, Territory and Commonwealth stakeholders) (6 out of 40 attendees commented); and • 5 stakeholders in individual meetings. Agenda Paper 3.2.6 *ITC 50 virtual meeting notes* (October 2023) was provided to the Board [in supplementary folder for the Board only].

14 Comments made at the NFP Advisory Panel meeting, Roundtables 1 to 3 and individual meetings are consistent with feedback received in the comment letters. Specific comments have been included in this paper where they add or are different to the feedback received in the comment letters. However, detailed feedback is included in the supporting agenda papers.

Feedback on Questions 11, 12 and 13 – determining whether an entity is a principal or an agent, differences in application and examples of specific scenarios

Principal versus agent determination is also an issue for for-profit entities

15 Pitcher Partners (PP) commented that the concept of principal versus agent is a difficult concept to apply and is subject to considerable judgement, however RSM considers this less subjective than the application of the sufficiently specific criterion for NFP entities. Both consider the principal versus agent determination is also faced by for-profit entities with RSM commenting on the limited example guidance included in AASB 15. NFP Advisory Panel members also noted that this issue is not unique to the NFP sector.

6 See Agenda Paper 3.2.0 *Cover Memo: Income of Not-for-Profit Entities* (October 2023) for more details.

7 Comment letters can be accessed from the AASB website. Survey responses were presented to the Board at the October 2023 meeting: Agenda paper 3.2.5 *Survey Responses*.

Pass-through arrangements with no decision-making ability or some discretion

16 A survey respondent suggested that there can be divergence in practice in deciding whether an NFP entity is a principal or an agent in pass-through arrangements (for example, emergency relief grants). Another two survey respondents commented on agreement structures, with one suggesting the agreements should specify whether the receiving entity is a principal or an agent, and the other considered unreasonable outcomes may arise such as for receiving entities to be considered agents given the discretion they had in selecting the charities they supported and that such an outcome (i.e. no income recognised when the entity had discretion in distribution fund to the recipients) was not reflective of their operations.

17 To the extent that funds are received by an NFP entity, as a pass-through arrangement, under a contractual agreement where the entity has no ability to access those funds to further its objectives or decision-making ability in relation to those funds, in PP's view, an NFP may be considered an agent.[8]

18 In PwC's experience pass-through arrangements are common for various NFP foundations. Often, the NFP is entitled to retain a small percentage to cover its internal administrative costs. While the entity must pass the funds through, they may have some discretion as to when, how much and to whom the funds are provided. In these situations, PwC commented it may be that a financial liability or provision arises for the amount that is required to be passed on and income is only recognised for the administrative fee allowed to be retained. This is because AASB 1058 only permits recognition of income for the residual amount, after any other related standards are applied. AASB 1058 has therefore brought greater focus to the need to consider AASB 9 and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*[9] and whether there is a liability that must be recognised on day 1 when the funding is received. However, PwC see entities considering it most transparent if they disclose income at the full amount of funds received, especially where they have some discretion.

19 BDO commented that, if the entity has limited discretion and/or responsibility, it is likely acting as an agent. They have seen practical challenges in these situations and similar situations are accounted for differently by different entities, which affects comparability. For example:

(a) where an entity is acting as a conduit to pass-through funds to other entities (and no other tasks are required), they may consider this a trust arrangement and not recognise the cash (financial asset) or the financial liability on the balance sheet. This will affect comparability with other agent entities that recognise a financial asset and a corresponding financial liability under AASB 9;[10] and

(b) in other circumstances, an entity is acting as an agent and recognises the cash (financial asset) and the corresponding liability. This might be the case when the entity has in the past provided a refund to the grantor for funds lost or misused by the ultimate recipient, notwithstanding that the entity did not have a contractual obligation to do so under the relevant agreement. However, it then also recognises gross grant income and gross expenses because it wants to reflect in its financial statements the source of the donation and services provided. For example, an entity whose only function is to give out scholarships may be heavily involved in selecting the recipient and monitoring that recipient's progress over several years (such as sponsoring a child). The net administration fee received may not reflect the extent of work performed in the arrangement and suggests that the entity is a small operation, which may result in

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8 PP provided the following as an example: a large NFP received monies from the government on behalf of a number of other smaller NFPs. The government agreement (or the application forms received that form part of the agreement) clearly indicates which amount each smaller NFP was to receive and exactly what the funds are to be used for. The government only deals with the large NFP from an efficiency perspective, so they do not have to deal with a large number of smaller NFPs (all with similar objectives). The larger NFP does not have any decision-making ability in relation to the funds received and merely acts as an agent in relation to funds received from the government. It does not record income in respect of the funds and immediately recognises the funds received as a liability until the amounts are paid over to the smaller NFPs.

9 AASB 137 paragraph 14: 'A provision shall be recognised when:
(a) an entity has a present obligation (legal or constructive) as a result of a past event;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised.'

10 An attendee at Roundtable 3 (State, Territory and Commonwealth Government) also raised the issue of trusts and there being confusion about how these arrangements should be treated. They considered it to be difficult to explain the difference between an agent and a trustee relationship because they have overlapping criteria.

difficulties attracting further funding. A similar situation could occur where research funding is tied to a specific researcher. The funding received is recognised as a financial liability (as agent) but the entity nevertheless recognises gross revenue and expenses.

Judgement required and effect on comparability

20 KPMG commented that, in their experience, the recognition of a financial liability is not directly tied to the determination of whether an entity is a principal or an agent. Whether AASB 9 is applicable is a matter of fact depending on the contract in question. Similarly, if an entity is an agent, it is not necessarily the case that a financial liability will be recognised for the agent's involvement in the arrangement. KPMG commented that the AASB did not issue additional guidance on principal versus agent considerations for NFP entities, instead relying on the guidance the IASB developed (AASB 15 paragraphs B34 to B38). In their experience this guidance is sufficient, and the complexities come from the judgements required in certain facts and circumstances.

21 Due to the inherent judgement in the assessment of principal versus agent, Deloitte note that there could be differences in application as there are many complexities present in the various sectors. Deloitte noted that a contract with the obligation to transfer cash rather than the provision of goods or services is one of the complex post-implementation issues arising from AASB 1058 and the assessment of principal versus agent is one of the key decisions that an NFP entity needs to make to properly account for its income.

22 The ACNC commented that the most common inquiry on this topic the ACNC receives from charities is in relation to grant/donation auspicing arrangements. The questions are so common that the ACNC drafted 'Grants received on behalf of another charity' guidance to help charities with this.

23 However, RSM believe that this area has less diversity in practice than the application of the sufficiently specific criterion and therefore have not encountered situations where significant challenges occurred.

24 Similarly to RSM, HoTARAC has not identified any specific instances where differences in application significantly affect the comparability of financial statements. However, further guidance on the distinction between principal and agent transactions would be beneficial for the effect of discretion exercised and where a department is assessing the eligibility of recipients on behalf of the state.

25 HoTARAC also commented that the application of the agent concept depends on the core activity of the NFP entity, and the extent of discretion or control that the entity exercises over the transactions. HoTARAC commented that the primary difficulty arises from agreements involving a system manager, where the identification of the principal can be challenging. A system manager is often named in agreements and is held responsible for the imposed obligations. This complexity is enhanced by the system manager facing non-delivery risk but only the final recipients of the funds can deliver the relevant services. As regulators, HoTARAC jurisdictions are comfortable that the system manager has discretion in this scenario, and it would be helpful to preparers for general guidance indicating that discretion and accountability are indicators that they are principals.

Determination impacts multiple sectors

26 Deloitte commented that the issue of principal versus agent is present in various sectors in the NFP space including in the education sector where a school has received a donation and per the written agreement is required to provide cash scholarships to the specific students.

27 ACAG commented that there are a number of grant and loan programs within government to which this issue is relevant.

28 The following examples were provided in the virtual outreach meetings where principal versus agent considerations are relevant and the application of the principle are considered to be inconsistent:

(a) grants for brokerage services, for example:

(i) an entity receives $1 million to directly reimburse individuals for expenses, for example, in the mental health and domestic violence assistance areas;

(ii) in the National Disability Insurance Scheme (NDIS) space, where reimbursements are based on the applicable NDIS plans; and

(iii) consortiums where the flow throughs are inconsistent;

(b) state/local government entities that put in a single claim to a Commonwealth entity. The grant funding is received by the Commonwealth entities and then distributed to the state/local government entities;

(c) a national educational association where students sign up, including payment, but the courses are operated and run by state-based colleges;

(d) collaboration agreements for research grants where the money is received by the administering university and money is disbursed to participating universities as part of the project;

(e) schools with retreats, camps and other activities. Parents pay money to the school and the school pays the facilitator of the activities;

(f) natural disaster funding arrangements; and

(g) health funding received by state government departments/entities where the only obligation is to pass the money on. However, it was noted that these health arrangements are complex, and it may be difficult to provide guidance on how to account for all of these arrangements because every situation and arrangement is different and the government has complex arrangements.

Flow on impact on ACNC reporting requirements

29 Deloitte commented that the difference between principal versus agent accounting will have flow-on consequences to the reporting requirements for ACNC registered charities. As reporting requirements are based on annual revenue, an entity's principal versus agent determination may materially change their reported revenue and cause a charity to move between tiers.

30 PwC also noted that there is a possibility that a number of NFP entities may fall outside the ACNC reporting thresholds if they recognise income only for the administrative fee. If the Standard is not amended to avoid this outcome, the Government could revisit the reporting thresholds that are used in the *Australian Charities and Not-for-profits Commission Act 2012* for the purpose of the size test. For example, it could replace the revenue test with operating payments (used in New Zealand for the Tier 4 and defined as "the total amount of any payment (including grant payments and income tax payments, where applicable), other than a capital payment").

Achieving a particular outcome

31 ACAG commented that there is a risk that entities are not applying the requirements of principal versus agent appropriately to achieve a desired outcome. Under the current accounting standards (identification of sufficiently specific performance obligations as defined under AASB 15, and AASB 1058) there is a very strong incentive for those organisations that are required (depending on interpretations by preparers and auditors) to adopt up-front revenue/income recognition to want to avoid mismatched recognition by arguing they are an agent.

32 On the other hand, BDO commented that many entities do not want to be considered an agent because they are then required to recognise only the fees earned in providing the services, rather than gross funding received and gross funds disbursed. Showing smaller amounts of income could hinder an entity's fundraising abilities. It would therefore be useful for the AASB to clarify, via examples, the complete accounting entries where the entity is acting as agent, and where the entity is acting as principal.

33 An NFP Advisory Panel member commented that some NFP entities prefer to show the funding as gross because it makes the profit and loss look bigger, while other entities want to show it as net for other reasons.

ITC 50 examples

34 ACAG commented that some jurisdictions found the Foundation example in the ITC unrealistic. In practice there is often no obligation (per existing accounting standards) to pass all funds raised to other entities, even though that may be an intention. There is also often no agreement with those entities as to how much will be retained to cover administrative and marketing costs. These jurisdictions do however acknowledge that there are service providers that do raise money for charities on a commission basis where the responsibilities are clearly outlined.

35 An attendee at Roundtable 2 (Local Government) commented that they disagree with the example of the university and the scholarship. Normally there is a performance obligation to choose recipients and in respect of management requirements. The entities are doing more activities than just passing the funds on.

Principal versus agent disclosure observations

36 An academic from Swinburne University School of Business, Law and Entrepreneurship noted that in preliminary research conducted based on 40 financial statements of Australian universities for the financial year ending 2020-21, the findings showed:

(a) Charles Darwin University included the following disclosure in its financial statement "The Department of Education Guidelines require OS-HELP to be recorded as a liability as it considers that the University acts as an agent on behalf of the Australian Government in distributing the loans to students."

(b) The other 39 universities did not provide specific principal or agent disclosures. However, 19 made scholarship related disclosures including some universities noting "…If there is a third party (such as a scholarship student) the University recognises the amount payable as a liability in the Statement of Financial Position, in accordance with AASB 9."

Feedback on Question 14 – guidance that would help determine whether an NFP entity is a principal or an agent

Prescriptive guidance not considered necessary

37 An NFP Advisory Panel member commented that it depends on the facts and circumstances to determine whether a liability should be recognised as required by AASB 9. Judgement is required relating to this and the member did not think there is anything specific that could be done to help in this space other than to apply the principles. More guidance was not considered necessary because specific fact patterns would not apply to all scenarios.

38 A stakeholder at Roundtable 3 (State, Territory and Commonwealth Government) commented that from a state government perspective it is important to understand how the government of the Crown is structured and represented and what are the obligations on the Crown as opposed to Departments, which are formed as an organisation to support the Crown. The stakeholder would prefer general guidance. They thought the AASB 15 guidance is quite good, and this is what they use because it allows for appropriate and broader interpretation, and in terms of governments, allows application in terms of how they operate. Prescriptive guidance would not be helpful in terms of government operations and would limit the application to broader situations.

Additional guidance required

39 In an individual meeting with a professional services firm it was suggested that the AASB could require entities to use disclosures to make it clear how an entity has accounted for a principal versus agent related arrangement.

40 A survey respondent suggested funding agreements should specify whether an entity is a principal or an agent.

41 Another NFP Advisory Panel member commented that the control concept is being applied to the cash itself and if there is enough control on the cash transfer then no liability is recognised. It may be helpful to make the control concept clearer and include an example on the gross, net and profit and loss impacts.

42 PwC do not consider that the current guidance in AASB 1058 would allow the principal versus agent considerations to be applied to cash transactions. Recognising income and expense on a gross basis where a liability exists would also be inconsistent with paragraph 9 of AASB 1058. However, if there is a desire for greater transparency of the cash flows coming in and out of an NFP entity and this cannot be achieved with additional disclosures, then the AASB could consider whether the principal versus agent guidance could be used to determine under which circumstances grant inflows and related outflows should be shown gross or net.

43 A stakeholder at Roundtable 1 (Private Sector) did not think the impact of recognising a financial liability is clear and well understood. They thought Illustrative Examples may be helpful in this area because the recognition has a significant impact on the size of the charities and what their profit and loss presentation looks like. KPMG also commented that they consider that clearer guidance on identifying financial liabilities in typical NFP income arrangements should be the focus of the AASB's efforts in this regard.

44 Some stakeholders suggested guidance should have a wider focus than only on university arrangements, and that the principal versus agent guidance should not only be referred to in AASB 15 but also in AASB 1058 (as relevant).

45 Eight comment letter respondents[11] commented on the limited current guidance and the need for additional tailored NFP specific principal versus agent guidance. The ACNC offered to provide input on the draft AASB guidance if needed. PP and ACAG commented that the current guidance is internationally developed, and private for-profit sector focused.

46 Deloitte believe for the examples to be helpful to NFP entities, it is important that the examples are more complex and touch on various intricacies to draw out judgemental implementation issues, including where the obligation is to deliver cash rather than the provision of goods and services. Deloitte further commented that the Board should provide guidance around the impact of the following items on the principal versus agent determination:

(a) additional terms around interest income for cash scholarships;

(b) charging of a certain administrative fee (Deloitte understand many funds disbursement entities charge a certain fee to the grantor for its services); and

(c) the illustration of a common school scenario between a college entity and foundation (for example, the grantor donates funds to the foundation which in turn passes it on to the college entity).

47 HoTARAC suggested limited additional general guidance on the distinction between principal and agent transactions would be beneficial, including guidance on the effect of discretion exercised and where a department is assessing the eligibility of recipients on behalf of the State (also included in paragraph 24).

48 BDO commented that facts and circumstances determine whether the entity is acting as agent or principal, and the determination often comes down to the extent of work/input required by the grant recipient, as well as the level of discretion that the entity has in determining who gets what and how much. For example:

(a) he university scholarship example in ITC 50 (see paragraph 9) assumes that the university is acting as an agent of the grantor because it has no discretion on how interest income from the grant is used. However, if the university has to spend significant time selecting and interviewing scholarship recipients, it could be considered to be acting as principal; and

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11 ACNC, Deloitte, HoTARAC, BDO, KPMG, PP, PwC and ACAG.

(b) the foundation example provided in ITC 50 (see paragraph 9) refers to funds being raised by the foundation being passed on to other charities on a best endeavours basis. BDO do not believe that the foundation is acting as an agent in this scenario because it has no obligation to make distributions (i.e. there is no financial liability) and the foundation is acting as principal.

49 For NFP entities, ACAG commented that one of the key transactions that entities need to consider principal versus agent (or controlled versus administered) is in relation to the provision of funding for grants and loan programs rather than providing goods or services. ACAG believe it would be useful if the AASB provided considerations and guidance for NFP entities when determining whether the entity is principal or agent and controlled versus administered for these types of transactions.[12]

50 Some ACAG jurisdictions also believe examples should be included for the administration of grants and loan programs, where the grant administrator has to undertake tasks such as marketing, and selection of appropriate recipients. These jurisdictions believe that the grant administering entity that exercises discretion in the selection of appropriate grant recipients acts as a principal and should recognise the grant income/revenue and grant expenses in its profit and loss statement. Further, AASB guidance would be required on whether the grant income/revenue should be recognised under AASB 15 (i.e. whether the grant administration activities represent a service) or AASB 1058.

Illustrative Example 3A of AASB 1058

51 Four comment letter respondents[13] commented on the need for Illustrative Example 3A to be reviewed and updated, raising concerns previously raised in relation to amendments to the example proposed in ED 318.

52 KPMG suggested the example is contributing to significant divergence in practice which is caused by it not considering the following in isolation and providing limited guidance on the following:

(a) principal versus agent;

(b) contractual obligations surrounding the maintenance of the principal amount and option of the alumnus to recall the funds; and

(c) obligation to fund scholarships from uncertain future income generated on the principal amount if such income is in excess of maintaining the grant's real value.

53 Other suggestions made by respondents for the AASB to consider clarifying when reviewing and updating the example included:[14]

(a) whether a financial liability should be recognised and initial measurement as required by AASB 9 and AASB 132 *Financial Instruments: Presentation*;

(b) whether funds should be recognised on a gross or net basis in profit or loss including linking any derecognition and pass-through analysis to the principal versus agent assessment, to appropriately address the subsequent accounting for the financial liability and related income;

(c) the accounting outcome (i.e. principal or agent) when the university has different levels of discretion when granting the scholarships;

(d) a contrasting example where no financial liability arises, with an explanation as to why not; and

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12 See the 'Other matters raised' section from paragraph 103 for feedback relating to controlled versus administered and its interaction with principal versus agent, along with staff analysis and preliminary views on next steps.

13 ACAG, Deloitte, KPMG and PwC.

14 Detailed analysis and suggestions are included in respondent comment letters (linked in the previous footnote).

(e) an example where a provision may be required to be recognised because of a constructive obligation to pass through the granted funds.

What the AASB has done so far

June 2021

54 Since the release of AASB 1058 and Appendix F of AASB 15, staff had considered a number of implementation issues raised by stakeholders. In response to further stakeholder feedback, staff conducted further targeted outreach to gain an understanding of the prevalence of issues raised in practice. Following this, at the June 2021 meeting, staff presented feedback from stakeholders outlining there were a number of types of contracts that were causing confusion and diversity in the accounting for revenue on a net or gross basis and whether a financial liability should be recognised, for example:

(a) in some NDIS arrangements, the NFP entity receives all the funding relating to the care to be provided to a participant, however they partly act in a fund management role to distribute the funds to the relevant provider and retain funds only for the administration and disability services which they provide; and

(b) a number of consortium grant arrangements which are causing confusion as to the accounting for the lead entity.

55 Further feedback related to the accounting for financial instruments, bequests and endowments under AASB 1058, where a number of professional services firms required further clarification on the analysis and accounting treatment set out in the cash scholarship endowment example in Illustrative Example 3A (IE 3A) in the standard to:

(a) provide an example with facts and circumstances where the recognition of a financial liability explicitly arises, with an explanation as to why; and

(b) provide a contrasting example where no recognition of financial liability arises, with explanation as to why not.

56 These stakeholders were concerned that IE 3A may lead to diversity in application of the recognition of a financial liability. For example, in many cases foundations that provide funding and support for other charitable organisations through grants, have a charter which outlines their charitable objectives where the funding raised will be directed on a best endeavours basis. The question arises whether (following the principles of IE 3A) the foundation should recognise a financial liability for any funding received that will be directed to other recipients and only recognise income for the portion that is retained by the foundation (for example, to cover administration expenses).

57 In IE 3A, an endowment is made where all income from the principal amount is required to be applied towards a specific purpose (to be used by the recipient at their discretion). Even though the entity (a university) selects recipients (in this case students to receive a scholarship), IE 3A illustrates the accounting for the endowment under AASB 9 in accordance with paragraph 9 of AASB 1058 with any difference between the financial asset recognised (being the endowment received) and a related financial liability to be recognised under AASB 9 and paragraph 10 of AASB 1058 does not apply.

58 It was considered that if the application in practice of AASB 1058 following IE 3A results in the recognition of a financial liability, this may represent significant changes to current practice, where such entities are recognising income and related expenses on a gross basis. It was also noted that IE 3A does not clearly conclude whether any financial liability is recognised and if so, what amount should be recognised.

59 After considering the feedback, the Board decided to add a narrow-scope project to its work program.[15]

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September 2021

60 At the September 2021 meeting, staff presented further feedback relating to the principal versus agent topic. Staff had sought views on the matters raised from the members of the NFP Project Advisory Panel (Panel) at the meeting on Monday 16 August 2021. The feedback from Panel members confirmed the need to clarify application of the respective accounting standards resulting in the accounting treatment illustrated in IE 3A. The Panel members noted there are several instances where smaller NFP entities work together to apply for a grant which would potentially fall under the principal versus agency topic but are not necessarily being considered. They also agreed there were issues with IE 3A which indicates that a financial liability exists when in some stakeholders' views, prima facie, it may not meet the definition, but the example does not explain why.

61 The Board decided to amend IE 3A to clarify the analysis regarding the recognition of a financial liability and develop additional educational material to support consistent application of AASB 15 and AASB 1058 regarding principal versus agent considerations.[16]

Exposure Draft ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets*

62 In January 2022, the Board issued ED 318 with comments due by 11 March 2022. This proposed amendments to IE 3A. Whilst the original conclusions in IE 3A were considered appropriate, the Board decided to propose amending the example to clarify the conclusion further and to add an additional example to illustrate a contrasting scenario.

April 2022

63 At the April 2022 meeting, the Board considered stakeholder feedback received in response to ED 318. Most (8 of the 10) respondents to ED 318 did not support the proposed amendment to IE 3A and noted several concerns with the illustrated scenario and accounting analysis. Also, six of the respondents noted these were not desirable at this time and recommended considering any amendments as part of the Income PIR. In contrast, four respondents supported amending IE 3A at the time.

64 Those stakeholders that did not support proceeding with the proposed amendments at the time noted that whilst the existing example is unclear (KPMG), the main question to be addressed is whether the NFP entity is a principal or an agent and whether it should recognise the funds received and monies spent on a gross or net basis. They also noted that the answer to this question might represent a significant change to current practice (PwC). They recommended deferring any amendments to the forthcoming PIR review to address the issues holistically.

65 The main reasons given by those respondents for not proceeding with the amendments at the time were:

(a) potential significant change in practice if the assessment of principal versus agent would result in net recognition including the need for transitional provisions (PwC);

(b) a change in accounting treatment may reduce the size of many charities, which means that they may no longer be required to lodge any financial reports with the ACNC and will no longer be subject to audit or review and, as such, would need to be discussed with ACNC (PwC, BDO);

(c) the reasons and bases for the conclusions reached have the potential for users to draw incorrect conclusions on alternative fact sets (Nexia); and

(d) the scenarios illustrated in the examples (both IE 3A.1 and 3A.2) do not reflect the practice. However, the complexities of more realistic scenarios that would be most beneficial to stakeholders should be addressed during the PIR (KPMG, CAANZ & CPA, BDO and EY).

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66 On the other hand, four of the respondents agreed that the amendments are warranted as the existing IE 3A is unclear why a financial liability should be recognised and assist NFP organisations in applying the accounting Standards and reducing divergence in practice. However, some respondents noted significant concerns with the proposed amendments. For example:

(a) Deloitte noted the potential unintended consequences in a possible change in the gross versus net income recognition and its interaction with ACNC reporting thresholds.

(b) ACAG noted that the proposed IE 3A.1 requires further clarification to support the accounting analysis and conclusions and recommended waiting until IPSASB redeliberation on its Revenue project if the AASB believes that recognising a liability is the right outcome in this scenario.

67 Most respondents, both those that recommended deferral to the Income PIR and those that supported amendments at this time, noted several comments and concerns with the proposed amendments in respect of:

(a) lack of explicit consideration of principal versus agent assessment;

(b) existence of the financial liability – financial instrument definition;

(c) initial recognition and measurement of the financial liability;

(d) subsequent measurement of the financial liability;

(e) clarification of the use of income and principal towards the NFP objectives in IE 3A.2;

(f) clarification of examples 3B, 3C and other examples in AASB 1058 and AASB 15; and

(g) other drafting and editorial comments.

68 The Board decided to retain IE 3 in AASB 1058 without any amendment after considering the feedback on ED 318.[17]

August 2022

69 At the August 2022 meeting, staff recommended the principal versus agent topic be considered as part of this NFP Income PIR.

Educational material

70 Discussion of the principal versus agent accounting requirements and ED 318 were included as part of the Income of not-for-profit entities: AASB 15 and AASB 1058 – AASB staff education session held in March 2022.

Conceptual Framework for Financial Reporting

71 The *Conceptual Framework*, applicable to for-profit entities, includes the following guidance relating to principal versus agent accounting:

(a) Paragraph 4.25: 'Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to arrange sales of goods controlled by the principal. If an agent has custody of an economic resource controlled by the principal, that economic resource is not an asset of the agent. Furthermore, if the agent has an obligation to transfer to a third party an economic resource controlled by the principal, that obligation is not a liability of the agent, because the economic resource that would be transferred is the principal's economic resource, not the agent's.'

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(b) Paragraph 5.29: 'In some cases, an entity might appear to transfer an asset or liability, but that asset or liability might nevertheless remain an asset or liability of the entity. For example: … (b) if an entity has transferred an asset to another party that holds the asset as an agent for the entity, the transferor still controls the asset (see paragraph 4.25).'

72 The *Framework for the Preparation and Presentation of Financial Statements*, applicable to NFP entities, does not include the same guidance as the Conceptual Framework applicable to for-profit entities. Agenda item 6 for this Board meeting asks the Board to consider an update and various aspects of the Conceptual Framework: NFP Amendments project with the recommendation to proceed with an Exposure Draft as the next milestone in H2 2024 to coincide with NFP Private Sector Tier 3 Exposure Draft. It is anticipated that the Conceptual Framework applicable to NFP entities will be largely in line with the Conceptual Framework for for-profit entities. Staff recommend acknowledging agent-principal relationships in the NFP sector because of their prevalence and importance through a proposed paragraph Aus4.25.1 highlighting that for NFP entities, goods may be distributed rather than sold. Therefore, it is anticipated the principal versus agent conceptual guidance in the above paragraph will apply to NFP entities following the Conceptual Framework: NFP Amendments project.

IFRS (AASB) 15 Revenue from Contracts with Customers *post-implementation review*

73 The IASB issued the Request for Information (RFI) as part of the IFRS 15 PIR and it was issued by the AASB as ITC 53 *Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 15* Revenue from Contracts with Customers. The Australian comment period closed on 8 September 2023 with all comments to be received by the IASB by 27 October 2023.

74 The RFI sought information on principal versus agent considerations and asked for feedback on the following questions (RFI question 5):

(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently – in particular, in relation to the concept of control and related indicators.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

75 Staff performed outreach activities to gather views from Australian stakeholders including the AASB Disclosure Initiative Advisory Panel, written submissions to the AASB from Australian stakeholders and other targeted consultations with financial statement preparers, auditors and professional bodies.

76 In relation to the principal versus agent considerations, the AASB included in its comment letter to the IASB that feedback indicated stakeholders seek clarity on the concept of control, as currently reliance is being placed on the indicators in paragraph B37. Stakeholders also reported that complex scenarios require significant judgement (for example, multiple-parties contracts). The AASB encouraged the IASB to undertake research into how the control concept can be more clearly outlined in IFRS 15 and undertake research to identify areas where application challenges arise frequently where further guidance can be developed. The AASB provided the following suggestions:

(a) elevating some of the Basis for Conclusions (BC) paragraphs into IFRS 15 or application guidance (for example, paragraph BC381 and paragraph BC385H which clearly explains that the indicators do not override the application of the control concept);

(b) transforming the IFRS Interpretations Committee (IC) Agenda Decision *Principal versus Agent: Software Reseller* into an Illustrative Example with a conclusion on the entity being a principal or agent so it is easily accessible to stakeholders; and

(c) developing a decision tree that would clearly demonstrate the hierarchy of the assessments.

77 A summary of the principal versus agent feedback received from all stakeholders who responded to the RFI was presented to the IASB at its January 2024 meeting as part of AP6A: Feedback summary – IFRS 15 requirements (see paragraphs 53 to 65).

78 Detailed feedback and staff analysis is included in the February 2024 AP6B: Principal versus agent considerations staff paper. A number of application matters were identified (see paragraph 13 of that paper). IASB staff have recommended the IASB discuss later whether to add some explanations from paragraphs BC385H and BC385E of the BCs to the Standard, along with possible clarifications of other aspects of IFRS 15. IASB staff consider these would help clarify some of the application matters identified. They also recommended the IASB classify as a low priority the matter raised by respondents in relation to assessing control over services and intangible assets and consider the matter in the next agenda consultation (see paragraph 4 of the above-mentioned February 2024 IASB paper).

IPSAS 47 Revenue

79 IPSAS 47 includes a Principal versus Agent Consideration section in paragraphs AG117 to AG125 that is the same as the principal versus agent guidance included in AASB 15 (see Appendix A for an extract from AASB 15).

80 IPSAS 47 also includes an Existence and Recognition of a Liability section which includes the following:

(a) 'An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events' (paragraph 26);

(b) 'For a liability to exist, it is necessary that the entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s)' (paragraph 27); and

(c) 'An obligation that meets the definition of a liability shall be recognized as a liability when, and only when, the amount of the obligation can be measured reliably' (paragraph 28).

International Financial Reporting for Non-Profit Organisations (INPAG) Exposure Draft (ED) 2

81 INPAG ED 2 includes principal versus agent guidance (paragraphs G23.16 to G23.19 and AG24.41 to AG24.44) that is an extension of the guidance included in the IFRS for SMEs Exposure Draft (ED) in that it provides examples of arrangements where the principal versus agent determination needs to be considered (for example, formal joint venture arrangements, contracting and sub-contracting arrangements and where there are consortium members), considering the rights in the arrangements and outlines where an NPO is likely to be a principal. Paragraph G24.41 also requires specific disclosures where an NPO has acted as an agent during the reporting period. Staff note that the IFRS for SMEs ED, whilst adopting a control-based approach to the principal-agent distinction, proposed some simplifications (i.e. restricting the assessment to a limited number of factors) compared to IFRS 15 and the topic is yet to be deliberated by the IASB as part of the IFRS for SMEs review project.

82 INPAG ED 2 includes in paragraph G11.15 and G11.63 that 'an NPO shall recognise a financial asset or a financial liability only when the NPO becomes party to the contractual provisions of the instrument.'

Charities SORP (FRS 102)

83 FRS 102 includes section '19. Accounting for funds received as agent or as custodian trustee' which has guidance on accounting for funds held as agent, distinguishing consortia or similar arrangements involving a 'lead' charity and disclosure of funds received as agent or held as custodian trustee. If the Board decides to develop additional NFP guidance, staff consider the UK SORP could be considered as one of the potential sources of further guidance.

Staff analysis and preliminary views

84 This section includes staff analysis of the feedback received, preliminary views on whether any action may be required to address the feedback and what may be done to respond to it. Appendix A and B of Agenda Paper 7.1 (November 2023), sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required. Staff plan to formalise the recommendations on the next steps including consideration of the magnitude of the issues identified, likely timeframe of possible actions, and their expected benefits and associated costs and present them to the Board at a future meeting.

Feedback themes/areas	**Staff analysis and preliminary views**
Principal versus agent determination is also an issue for for-profit entities and Determination impacts multiple sectors	85 In line with stakeholder feedback, staff acknowledge the principal versus agent concept can be difficult to apply for both for-profit and NFP entities, and this is also demonstrated in the feedback received as part of the IFRS 15 PIR (see paragraphs 73 to 78 86 Stakeholder feedback also indicates the principal versus agent determination and whether a financial liability should be recognised impacts multiple NFP sectors. There is also diversity in how agreements within sectors are being accounted for (for example, a number of grant and loan programs within government). Feedback received during this PIR is similar to feedback received prior to this PIR (see paragraph 54). 87 Staff's preliminary views on next steps, is that staff should continue to monitor any changes that the IASB may make to IFRS 15 following the IFRS 15 PIR (although, as outlined in paragraph 78 minimal changes may be the outcome). Further, given the topic of principal versus agent is applicable to both for-profit and NFP entities, staff's preliminary view is that any NFP guidance developed following this PIR should maintain transaction neutrality and not diverge from IFRS unless warranted. Given the wide variety of arrangements and sectors that the principal versus agent determination impacts, staff's preliminary view is that any NFP guidance that is developed should be principles-based so that it can be applied to as many arrangements as possible and guidance applicable to specific facts and circumstances should be minimised.
Pass-through arrangements with no decision-making ability or some discretion	88 Stakeholder feedback indicates pass-through arrangements are common and there may be diverse practice in determining whether an entity is considered a principal or an agent, with the level of discretion an entity has in deciding where funds are transferred being a key consideration in making this judgement. 89 A stakeholder highlighted that a financial liability may be recognised by an entity, depending on the level of discretion the entity has and income only recognised for the administrative fee that is able to be retained. This is because AASB 1058 only permits recognition of income for the residual amount, after any other accounting standard is applied.[18] As noted by the stakeholder, AASB 1058 has therefore brought greater focus to the need to consider AASB 9 and AASB 137. Despite this, the stakeholder observed that where a liability should be recognised on day 1, due to transparency reasons, entities are recognising income at the full amount of funds received, especially where they have some discretion. Another stakeholder commented relating to transparency, indicating entities recognise gross grant income and expenses because they want to reflect the source of the

18 In the absence of an accounting standard applying, the requirements of paragraph 10 to 12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* would be referred to determine whether the definitions, recognition criteria and measurement concepts in the Conceptual Framework would apply.

Feedback themes/areas	Staff analysis and preliminary views
	donation and services provided in the financial statements. In some instances, entities may be recognising a financial liability and then also recognising the income and expenses. 90 Two stakeholders raised the issue of trust accounting (off-balance sheet) and considered there may also be confusion in how these arrangements should be accounted for. Staff's preliminary views on next steps, is that if the Board decides to develop NFP guidance (as outlined in paragraph 97), trust accounting could be clarified.
Judgement required and effect on comparability	91 More stakeholders than not commented relating to the difficulties in this area: (a) a stakeholder highlighted that where a transaction is within the scope of AASB 1058, the recognition of a financial liability is based on whether the requirements of AASB 9 are met and this is based on the facts and the specific contract. This determination is separate from the determination of whether an entity is a principal or an agent. This stakeholder considered the guidance in paragraph B34 to B38 (see Appendix A), although it is included in AASB 15, to be sufficient, and the complexities come from the judgements required in certain facts and circumstances; (b) the ACNC commented that questions about the principal versus agent determination are so common that the ACNC has its own guidance to help charities with this. Staff consider that, depending on the next steps following this PIR, any educational material the AASB develops should leverage off existing guidance to the extent it is in line with Australian Accounting Standards and future Board's decisions in this regard; and (c) one stakeholder considered that this is one of the complex post-implementation issues arising from AASB 1058 and the principal versus agent assessment is one of the key decisions that an NFP entity needs to make to properly account for its income.
Prescriptive guidance not considered necessary and Additional guidance required and Illustrative Example 3A of AASB 1058	92 One survey respondent suggested that agreements should specify whether an entity is acting as a principal or an agent. However, staff consider this is not something the AASB can control. 93 One stakeholder considered the application of this concept to be less subjective than the application of the sufficiently specific criterion and, therefore considered this area to have less diversity in practice and had not encountered situations where significant challenges had occurred. Another stakeholder also commented that they had not encountered any situations where differences in application significantly affected comparability. However, they considered further guidance on the distinction between principal and agent transactions would be beneficial, including general guidance indicating that discretion and accountability are indicators that the entity is a principal. As noted in paragraph 87, staff consider any NFP guidance should remain principles-based. 94 Two stakeholders commented on the principal versus agent guidance included in AASB 15 (see Appendix A) noting that they considered it sufficient and the principles-based nature of it allows for broader application. However other stakeholders suggested specific NFP guidance is needed to, for example: (a) refer to the principal versus agent guidance and be tailored to NFP entities in AASB 1058, as well as the guidance included in AASB 15; (b) make the control concept clearer (staff note the changes resulting from the IFRS 15 PIR may assist in making the control concept clearer in AASB 15 (see paragraph 78); and (c) make the requirements of recognising a financial liability and the impacts of this clear. This could be done through Illustrative Examples that cover more than university arrangements and

Feedback themes/areas	Staff analysis and preliminary views
	are more complex in considering the judgements that may be needed (for example, for discretion and accountability); 95 It was suggested by one stakeholder that the AASB could require an entity to disclose how they have accounted for principal versus agent arrangements. 96 Four stakeholders suggested IE 3A needs to be reviewed and updated because it is causing significant divergence in practice, raising concerns and suggestions received by the AASB prior to this PIR (see paragraphs 54 to 68). 97 Staff's preliminary views on next steps is that given the feedback received prior to and as part of this PIR the Board should consider addressing this area, especially for NFP private sector entities without accounting expert knowledge. However, given the diverse arrangements that have been reported by stakeholders where difficulties and diversity in accounting are occurring, staff consider more Illustrative Examples may not be beneficial in isolation because they will only apply to the scenario(s) included in the example. Therefore, staff consider a narrow-scope project (or as a part of broader project) could be undertaken to provide NFP entities with additional guidance on: (a) how the principal versus agent determination principles should be applied in the NFP context, where arrangements are accounted for applying AASB 1058 (including the impacts of factors like discretion and accountability). The guidance already included in AASB 15 is considered an appropriate starting point and the feedback received prior to and as part of this PIR should be used to develop this guidance; (b) whether an AASB 9 financial liability (or other Accounting Standard liability) should be recognised when funds are received and need to be passed on; and (c) depending on the determinations made in (a) and (b), how the arrangement should be accounted for (gross or net revenue) and the subsequent accounting for the financial liability and the associated income. The guidance included in the Conceptual Framework(s) (see paragraphs 71 to 72), IPSAS 47 (see paragraphs 79 to 80), INPAG ED 2 (see paragraphs 81 to 82) and the Charities SORP (FRS 102) (see paragraph 83 and paragraph 90 for details on requests for clarification in relation to trust accounting) could also be leveraged off in developing this guidance. Depending on the Board's decisions on next steps for other topics included in this PIR, if the Board was to consider amending AASB 1058 to address other concerns raised, this guidance could also be included in the Standard. This would be beneficial in that it would be easy for NFP entities to access in the Standard. However, if the Board would like to maintain the residual nature of AASB 1058, the guidance relating to AASB 9 financial liabilities (and other Accounting Standard liabilities) would need to sit outside AASB 1058. Staff note that the *AASB Due Process Framework for Setting Standards* paragraph 8.3.1 requires the AASB, before issuing a domestic Interpretation of an IFRS Standard, to refer the issue to the IFRS IC. In conjunction with this guidance being considered, including a cost versus benefit analysis, staff could look at how IE 3A can be reviewed and updated for stakeholder concerns and whether other examples could be developed to assist entities.
ITC 50 examples	98 Two stakeholders made comments relating to the ITC 50 examples being unrealistic and an entity generally being required to do more than pass funds on. Staff consider this feedback supports staff's preliminary views on next steps included in paragraph 87 and 93 (i.e. principles-based guidance would be more beneficial than providing additional examples with limited application).
Flow on impact on ACNC	99 Two stakeholders considered the determination of whether an entity is a principal or an agent may have flow-on reporting consequences for ACNC registered charities – changing their reported

Feedback themes/areas	Staff analysis and preliminary views
reporting requirements	revenue and therefore their reporting tier. Staff acknowledge, to some extent, this may be occurring already, depending on how entities are applying the Standards and existing guidance. If any changes as a result of this PIR were to affect an entity's reported revenue, a stakeholder suggested the government could revisit the reporting thresholds for the purpose of the size test. Whilst this is not in the AASB remit, regulators including the ACNC, would be consulted and kept informed on any forthcoming changes in accounting requirements in line with normal consultation and due process.
Achieving a particular outcome	100 Three stakeholders suggested NFP entities may not be applying the principal versus agent concept appropriately to achieve a particular income. For example, to recognise revenue at a gross amount (principal) or preferring to be considered an agent where the entity is required to recognise income upfront. This is similar to the feedback received as part of Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models (Alternative models) which is summarised in Agenda Paper 3.2.2 (October 2023) and staff's preliminary view's on next steps included in that paper may assist in reducing this issue. For example, exploring how the concepts of compliance obligation and enforceable grant obligations in IPSAS 47 and the INPAG ED could be incorporated into AASB 1058 which may allow entities to recognise income when the entity performs because they are broader concepts than an AASB 15 performance obligation. If the Board decides that it wants to explore the application of these concepts, staff consider the interaction between AASB 1058 and other Standards may also need to be reconsidered.
Principal versus agent disclosure observations	101 In regard to the observations provided in relation to the disclosures in university 2020-21 financial statements, staff consider this may evidence the existence of diversity in accounting for principal versus agent related agreements and the determination of whether to recognise a financial liability that has been reported by stakeholders above. However, staff acknowledge that due to factors such as materiality and universities having different agreements, no firm conclusions can be reached based on these observations.

102 The below table includes other matters raised relating to the principal versus agent topic:

Other matter raised
***Principal v agent concept and its interaction with AASB 1050* Administered Items**
103 ACAG commented that a key issue faced by the NFP public sector is the application of the principal versus agent concepts when applying AASB 1050.[19] Administered items are classified as such when the entity performs activities on behalf of another entity within the government (or the Crown itself). If an item is administered on behalf of another government entity of the state, then the amounts are recorded off-balance sheet, which differs from when an entity is acting as agent when a financial liability may be recognised. The lack of guidance and the extent of judgment required in applying AASB 1050 leads to challenges in its consistent application by government entities. One jurisdiction's Treasury has mandated that AASB 1050 be applied by all general government sector entities and not just departments. 104 ACAG commented: (a) in one jurisdiction the current practice is for appropriations for statutory bodies to be recognised in the administered financial statements of the respective departments (as only departments can receive appropriations). This accounting is based on the interpretation that the administered financial statements need to apply accounting standards, including AASB 1058. This practice also requires the department to prepare budget versus actual financial statements (Income Statement, Balance Sheet and Cash Flow Statement). The

19 AASB 1050 paragraph 24: 'To facilitate the assessment of the costs incurred and the cost recoveries generated as a result of the government department's activities, administered income, expenses, assets and liabilities are reported on the same basis adopted for the recognition of the elements of the financial statements.'

jurisdiction believes that the inclusion of such pass-through appropriations does not appear to provide useful information. In some cases, the recognition and disclosure of pass-through appropriations obscures the real operations of the administered activities; and

(b) the legislative framework for appropriations varies between jurisdictions. For example, the above contrasts with another jurisdiction where the department controls appropriations to other entities in their administrative cluster and recognises these as controlled rather than administered in their financial statements. Refer to the examples below for more details.

105 In practice, one ACAG jurisdiction found that more issues and challenges arose when determining whether funding received is controlled or administered rather than whether an entity is principal or agent. Examples of where this jurisdiction considered whether an item is controlled or administered include:

(a) whether appropriations that are paid to a department which then provides grants to other agencies in their administrative cluster are controlled or administered by the department. In this jurisdiction appropriations are appropriated to a Minister for the services of a principal department which then pays grants to other agencies within their cluster. Ministers have the ability to re-allocate appropriated funding within the cluster. Therefore, appropriations to each cluster are recognised as controlled items by principal departments. This is because the principal department has the right to direct the use of the funding by determining the identity of beneficiaries, and the amount and timing of payments;

(b) whether appropriations provided to a department for the purpose of the NDIS are controlled or are administered transfer payments. The payments were recognised as transfer payments because the identity of the beneficiary and amounts to be transferred to them are determined by the NDIS Act and the bilateral agreement with the Commonwealth; and

(c) determining whether specific grant programs are controlled or administered.

106 ACAG consider it would be useful if the AASB provided considerations and guidance for NFP entities when determining whether the entity is principal or agent and controlled versus administered in relation to the provision of funding for grants and loan programs rather than providing good or services.

107 ACAG believes it would be beneficial for the AASB to consider principal versus agent along with any feedback provided in relation to this PIR in the PIR of AASB 1050.

108 This was also discussed in two one-on-one meetings (with an accounting expert within an audit office and staff of a financial services team in an education department). A summary of the discussions included:

(a) if the principal versus agent concept is applied in relation to administered items, potentially there would be no administered items. Entity/state-based interpretations of the requirements are being developed; and

(b) if an entity is acting on behalf of another government department it was suggested that the entity should be an agent and the funding accounted for as an administered item. The specific example provided was where the education department was required to distribute rapid antigen tests during the COVID-19 pandemic. Extensive discussions occurred with auditors before determining this should be accounted for as an administered arrangement.

What the AASB has done so far

109 Staff note that AASB 15 paragraph AusB34.1 states that 'Notwithstanding paragraphs B34–B38, not-for-profit entities that are government departments shall apply the requirements of AASB 1050 *Administered Items* to administered items.'

110 AASB 1050 includes the following relating to a government department acting in the capacity of an agent:

(a) paragraph 11: 'The responsibilities of a government department may encompass the levying or collection of taxes, fines and fees, the provision of goods and services at a charge to recipients, and the transfer of funds to eligible beneficiaries. These activities may give rise to income and expenses that are not attributable to the government department. This occurs, for example, where the government department is unable to use for its own purposes the proceeds of user charges, taxes, fines and fees it collects without further authorisation, or where the transfer of funds to eligible beneficiaries does not involve a reduction in the assets recognised in the government department's statement of financial position. In addition, the government department may manage government assets in the capacity of an **agent** and may incur liabilities that, for example, while involving a future disbursement from the Consolidated Revenue Fund or other Fund will not involve a sacrifice of the assets that the government department controls as at the end of the reporting period. This administered income and these administered expenses, assets and liabilities are not recognised in the government department's operating statement or statement of financial position.' (emphasis added)

(b) paragraph 20: 'Where amounts are transferred to eligible beneficiaries and the identity of the beneficiaries and the amounts to be transferred to them are determined by reference to legislation or other authority, it is unlikely that the government department controls the funds to be transferred. The government department is merely the **agent** responsible for the administration of the transfer process. As such, the government department does not benefit from the assets held for transfer, nor does it have the capacity to deny or regulate the access of eligible beneficiaries to the assets. Accordingly, the government department does not recognise assets and income in respect of amounts appropriated for transfer, nor expenses in respect of the amounts subsequently transferred.' (emphasis added)

PIR of Selected Public Sector Pronouncements

111 At its May 2023 meeting, in developing an ITC for the PIR of Selected Public Sector Pronouncements,[20] the Board noted stakeholders' initial comments indicating that there are implementation issues relating to AASB 1050. At that meeting, the Board approved the issue of the ITC with a 150-comment period.[21] However, before the ITC could be issued, the project was placed on hold due to resourcing constraints and the re-prioritisation of the AASB's workplan.

112 At its November 2023 meeting, the Board agreed to further delay the publication of that ITC until 2026 because it considered that other projects should be prioritised over this PIR.

Staff analysis and preliminary views

113 In line with ACAG's suggestion in paragraph 107, staff's preliminary view on next steps is that the feedback relating to the interaction between the principles of principal versus agent and controlled versus administered should be considered together with any feedback on the future PIR of AASB 1050. This is because the feedback received as part of the PIR of AASB 1050 may add to the feedback received as part of this PIR and next steps may include changes to AASB 1050 and/or related guidance.

114 Although the Board has previously decided to publish one ITC to undertake the PIR of AASB 1050 together with the PIR of other public-sector-specific pronouncements, staff are of the preliminary view that there might be merit in accelerating the PIR of AASB 1050. ACAG, in its submission to ITC 46 AASB *Agenda Consultation 2022–2026* indicated that addressing issues relating to AASB 1050 should be a priority project.

Question to Board members

Q1: Do Board members have any questions or comments on the feedback, staff analysis or preliminary views for this topic?

20 To undertake a PIR of the following public-sector-specific pronouncements: AASB 1050 Administered Items, AASB 1051 Land Under Roads, AASB 1052 Disaggregated Disclosures, AASB 1055 Budgetary Reporting (in respect to entities within the General Government Sector), AASB 1004 Contributions, and Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities.

21 May 2023 Meeting Minutes.

Appendix A: Extracts from AASB 15

Principal versus agent considerations

B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

AusB34.1 Notwithstanding paragraphs B34–B38, not-for-profit entities that are government departments shall apply the requirements of AASB 1050 Administered Items to administered items.

B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:

(a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and

(b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

B35 An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

B35A When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

(a) a good or another asset from the other party that it then transfers to the customer.

(b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.

(c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

B35B When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

B36 An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

B37 Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:

(a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

(b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.

(c) the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B38 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the specified good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent).